

**United States Department of State  
*Bureau for International Narcotics and  
Law Enforcement Affairs***



**International  
Narcotics Control  
Strategy Report**

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**March 2002**

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## 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

# INTRODUCTION





## Legislative Basis for the INCSR

The Department of State's International Narcotics Control Strategy Report (INCSR) has been prepared in accordance with section 489 of the Foreign Assistance Act of 1961, as amended (the "FAA," 22 U.S.C. § 2291). The 2002 INCSR is the sixteenth annual report prepared pursuant to the FAA. In addition to addressing the reporting requirements of section 489 of the FAA (as well as sections 481(d)(2) and 484(c) of the FAA and section 804 of the Narcotics Control Trade Act of 1974, as amended), the INCSR provides the factual basis for the designations contained in the President's report to Congress on the major drug-transit or major illicit drug producing countries pursuant to section 591 of the Kenneth M. Ludden Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 (P.L. 107-115) (the "FOAA").

The FAA requires a report on the extent to which each country or entity that received assistance under chapter 8 of Part I of the Foreign Assistance Act<sup>1</sup> 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).

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 and certain entities are meeting the goals and objectives of the 1988 UN Drug Convention, the Department has used the best information it has available. The 2002 INCSR covers countries that range from major drug producing and drug-transit countries, where drug control is a critical element of national policy, to small countries or entities where drug issues 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 or entities 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 among countries, the Department's views on the extent to which a given country or entity is meeting the goals and objectives of the Convention are based on the overall response of the country or entity to those goals and objectives. Reports will often include discussion of foreign legal and regulatory structures. Although the Department strives to provide accurate information, this report should not be used as the basis for determining legal rights or obligations under U.S. or foreign law.

Some countries and other entities are not yet parties to the 1988 UN Drug Convention; some do not have status in the United Nations and cannot become parties. For such countries or entities, we have nonetheless considered actions taken by those countries or entities in areas covered by the Convention as well as plans (if any) for becoming parties and for bringing their legislation into conformity with the

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<sup>1</sup> The Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) is responsible for managing more than \$300 million a year in narcotics control and anticrime assistance to foreign countries.

Convention's requirements. Other countries have taken reservations, declarations, or understandings to the 1988 UN Drug Convention or other relevant treaties; such reservations, declarations, or understandings are generally not detailed in this report. For some of the smallest countries or entities that have not been designated by the President as major illicit drug producing or major drug-transit countries, 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, the Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) considers all countries and other entities with which the United States 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) of the FAA, in sections entitled "FY 2001-2002 Fiscal Summary and Functional Budget" and "Other USG Assistance Provided."

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

Section 489(a)(3) of the FAA requires the INCSR 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; or
- (C) major money laundering countries.

These countries are identified below.

## Major Illicit Drug Producing and Major 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 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 illicit drug producing and/or drug-transit countries were identified and notified to Congress by the President pursuant to section 490(h) of the FAA in 2001:

**Afghanistan, The Bahamas, Bolivia, Brazil, Burma, China, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, 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, the Netherlands, and the United States.**

Information is provided pursuant to section 489 of the FAA 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, Greece, Grenada, Guernsey, Hong Kong, Hungary, India, Indonesia, the Isle of Man, Israel, Italy, Japan, Jersey, Lebanon, Liechtenstein, Luxembourg, Macau, Mexico, Nauru, the Netherlands, Nigeria, Pakistan, Panama, Paraguay, Philippines, Russia, Singapore, Spain, St. Vincent and the Grenadines, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United Kingdom, United States, Uruguay, and Venezuela.**

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

## **Statement on FY 2002 Modifications to the Narcotics Certification Process**

Section 591 of the FOAA modifies the narcotics certification procedures during FY 2002 for countries on the list of major illicit drug producing or drug-transit countries. In lieu of the certification procedures set forth in section 490 of the FAA, section 591 requires the President to submit a report no later than 45 days after the Act is enacted that identifies each country that the President has determined to be a major drug-transit or major illicit drug producing country. The President is also required in that report to identify any country on the majors list that has “failed demonstrably . . . to make substantial efforts” during the previous 12 months to adhere to international counternarcotics agreements and to take certain counternarcotics measures set forth in U.S. law. U.S. assistance under the FY 2002 FOAA may not be provided to any country designated as having “failed demonstrably” unless the President determines that the provision of such assistance is vital to the U.S. national interests or that the country, at any time after the President’s initial report to Congress, has made “substantial efforts” to comply with the counternarcotics conditions in the legislation. This prohibition does not affect humanitarian, counternarcotics, and certain other types of assistance that are authorized to be provided notwithstanding any other provision of law.



# **POLICY AND PROGRAM DEVELOPMENT**



# Overview for 2001

US international counternarcotics efforts kept the drug trade on the defensive in 2001. A long-term campaign among Western Hemisphere nations to curb the flow of cocaine and heroin to the United States has systematically narrowed the drug syndicates' maneuvering room. With our allies, we continued to attack drug crop expansion, to strengthen interdiction efforts, and to break up major trafficking organizations. We furnished our partners critical training assistance to strengthen their law enforcement and judicial systems, while working with them to reduce drug consumption in their own countries. More governments showed a willingness to use extradition, thereby denying notorious drug criminals a national safe haven they could once count on. At the same time, closer international cooperation among governments and financial institutions has made it more difficult for the drug trade to legitimize its enormous profits through sophisticated money laundering schemes.

## The Drug Threat to the U.S.

The drugs that most concern the United States are cocaine, heroin and synthetic amphetamine-type stimulants (ATS), in that order. All the cocaine and heroin, as well as the bulk of the ATS drugs, originate from outside the United States. Consequently, cutting off their supply has been our principal international counternarcotics goal for more than a decade. Among these drugs, cocaine still poses the greatest threat. Each year an estimated 300 metric tons or more enter the US, feeding addiction, fueling crime, and harming the social and economic health of the country. Since all cocaine originates in the Andean countries of Colombia, Peru, and Bolivia, we have devoted a significant portion of our resources to eliminating coca cultivation, disrupting cocaine production, and keeping it from reaching the United States.

## Cocaine

Colombia is currently the world's foremost coca cultivation country, with Peru and Bolivia trailing a distant second and third. When joint interdiction operations in the mid-1990's effectively shut down much of the flow of coca from Bolivia and Peru to Colombian refineries, the drug syndicates were forced to seek out better protected cultivation areas. Beginning in 1996, the drug organizations shifted the bulk of coca cultivation from Peru and Bolivia to Colombia's southwest corner, an area controlled by the Revolutionary Armed Forces of Colombia (FARC), the Western Hemisphere's oldest terrorist insurgency. Since then, this guerrilla-trafficker alliance has actively extended Colombian coca cultivation in an effort to ensure its dominance of the drug trade.

The USG devoted a large portion of its counternarcotics resources to attacking Colombian coca cultivation, while working to prevent a resurgence of coca in Peru and Bolivia. While joint eradication destroyed thousands of hectares of Colombian coca in areas where aircraft could spray, overall coca cultivation probably increased in 2001. USG survey data for 2001 was not available by time of publication. Attacking coca in the FARC-controlled areas has been problematic, since spray aircraft had not been authorized to fumigate crops in those zones. During 2001, however, the Colombian government permitted aerial coca eradication in southwestern Putumayo, the densest area of coca cultivation in the world. During joint operations in 2001 with the Colombian Army, the U.S.-supported Colombian National Police Antinarcotics Directorate sprayed nearly twice as much illegal coca as in 2000.

Combined coca cultivation levels in Peru and Bolivia remained essentially stable in 2001, as new planting in one area was offset by eradication in another. U.S. Government surveys for 2001 show 34,000 hectares for Peru and 19,900 hectares for Bolivia, a drop of roughly 70 percent in each country over the past six years. Such reductions represent progress that few would have predicted a few years ago, given the combined pressures from deep-rooted traditions of coca in both countries and from trafficking organizations to protect their enormously lucrative crop. It remains to be seen if such levels can be

sustained in the face of active campaigns from the drug trade and displaced growers to reverse the decline.

Colombia's illegal drug industry has also invested heavily in applying the most modern scientific and agricultural methods to maximize their efficiency. Continuing fieldwork carried out under Operation Breakthrough, a decade-long interagency study led by the U.S. Drug Enforcement Administration, has revealed that higher yielding varieties of coca are being cultivated in Colombia. USG coca yield and cocaine processing efficiency studies conducted in 1999 confirmed that the typical Colombian cocaine base processor is about 69 percent efficient in extracting cocaine alkaloids from coca leaf and then converting these alkaloids into cocaine base. Though the USG estimates were not available at time of publication, it is clear that potential cocaine production for 2001 will exceed the previous year's estimate of 580 metric tons of finished cocaine HCl.

### **Narco-guerrillas**

More disturbing, however, is the rise of the "narco-guerrilla" alliance that has developed between the criminal drug organizations and the anti-democratic insurgent groups that seek to destroy the foundations of Colombian democracy. These include the FARC, the National Liberation Army (ELN), and the paramilitary United Self-Defense Forces of Colombia (AUC). All three organizations were identified as terrorist organizations in a Department of State's October 2001 report on Foreign Terrorist Organizations. The report estimates that the FARC receives about \$300 million from drug sales annually. This is a conservative estimate. The AUC relies on the illegal drug trade for anywhere between 40 to 70 percent of its income.

Initially, in the mid-1990's, the guerrillas provided protection for the drug crops, "taxed" a share of the profits in order to buy arms and war supplies, and let the syndicates bank the bulk of the revenues. What began as a marriage of convenience between the criminal drug organizations and the guerrillas, however, has now become a partnership dominated by the insurgents, whose avowed aim is to destroy Colombian democracy. As the 37-year struggle has escalated, drug revenues have become the lifeblood of the armed conflict. All the illegal armed organizations have shown they are willing to go to great lengths to protect this source of economic survival. Making illicit drugs the main funding source for the insurgency has raised the stakes for all concerned, since the drug trade is now an inseparable part of the Colombian civil conflict.

In 2000, the President signed into law a comprehensive \$1.3 billion assistance package in support of the GOC's "Plan Colombia," an integrated strategy focusing on the peace process, the economy, the counternarcotics strategy, justice reform and human rights protection, and democratization and social development. Through 2001, U.S. assistance to Plan Colombia has helped the Colombian government address the array of challenges it faces—its efforts to fight the illicit drug trade, to increase the rule of law, to protect human rights, to expand economic development, to institute judicial reform, and to foster peace. Under Plan Colombia, the U.S. has been supporting justice sector reform and alternative development projects, as funding the training and equipping of a 2,800-person Colombian Army Counterdrug Brigade. The third of three battalions became operational in 2001. This assistance is intended to increase the Colombian forces' capability to eradicate illicit coca and opium poppy cultivation and to conduct interdiction operations. The initial geographical focus has been in the department of Putumayo in southern Colombia, where the majority of illegal crops are cultivated and where the greatest number of illegal armed groups operates.

To address the needs of the region more comprehensively, the Bush administration in 2001 proposed the U.S. Andean Regional Initiative, of which the largest part will be used to fund the Andean Counterdrug Initiative (ACI). The ACI will expand counternarcotics programs begun under Plan Colombia, while increasing law enforcement and alternative development support to other countries in the region threatened by narcotics trafficking.



### Heroin

Our principal heroin threat comes from poppy cultivation in Colombia and Mexico. Although between them the two countries account for a fraction of the world's estimated production, most of the heroin entering the United States originates in these two countries. Since eliminating poppy cultivation there can have a significant impact on the flow of U.S.-bound heroin, we have joint eradication programs in both countries.

In 2001, evidence surfaced of spreading opium poppy cultivation in Peru. Colombian narcotics traffickers have been supplying Peruvian farmers with seeds from Colombian poppies, offering them technical assistance and cash loans. Limited reporting indicates that the opium poppy plant cultivated in Peru has larger bulbs than the poppy grown in Colombia. However, no crop yield or processing efficiency studies have been conducted to determine Peru's potential opium latex production." Peru law enforcement authorities did not find any opium latex or morphine laboratories in 2001, but judging from the increase in opium poppy plants found and eradicated, there is almost certainly opium latex production taking place.

The USG estimates that Mexico effectively eradicated 17,000 hectares of opium poppy in 2001. According to USG estimates, Mexico's 2001 net opium poppy crop cultivation was 4,400 hectares yielding some 71 metric tons of opium gum. This compares to 1,900 hectares yielding some 27 metric tons of opium gum in 2000. At current conversion rates, these would yield some seven metric tons of heroin in 2001 as compared to three metric tons in 2000.

Beyond our hemisphere, a major achievement was the vast reduction in poppy cultivation in Pakistan in 2001. In 2001, Pakistan's opium poppy cultivation dropped to 213 hectares, a 97 percent decrease over a decade before. U.S. assistance helped Pakistan offer the local population legitimate economic incentives, investing in roads and improvements to the infrastructure in traditional opium production areas. The virtual elimination of opium poppy from Pakistan, which in 1992 was the world's third largest illicit opium supplier, is a tribute to the leadership and political will of the Government of Pakistan. It should be noted that although the ban on opium poppy cultivation in the Taliban-controlled areas of Afghanistan reduced significantly opium poppy cultivation in 2001, the Taliban made no significant efforts to seize stored opium or precursor chemicals, or to arrest and prosecute narcotics traffickers. By the end of 2001, reliable reports indicated that farmers throughout Afghanistan had taken advantage of the Taliban's collapse to resume opium poppy cultivation.

In 2001, Burma once again became the world's single largest producer of illicit opium, following the drastic reduction in Southwest Asian opium cultivation. Owing to years of drought, however, Burma's overall production in 2001 was actually only a fraction of its production in the mid-1990s. According to the joint U.S./Burma opium yield survey, opium production in Burma totaled no more than 865 metric tons in 2001, down more than 20 percent from a year earlier, and barely one-third of the 2,560 metric tons produced in Burma in 1996. In 2001, yields in Burma (approximately 8.5 kilograms/hectare) were barely half the level recorded five years earlier, while the acreage under cultivation was down 35 percent.

### Synthetic Drugs

Demand for methamphetamine and other synthetic amphetamine-type stimulants (ATS), including MDMA ("Ecstasy") has been increasing both in the industrialized nations and in most of the countries of the developing world. Methamphetamine rivals cocaine as the stimulant of choice in many parts of the globe, including the U.S., where "meth" is one of the fastest growing drugs. In Southeast Asia, methamphetamine vies with heroin as the principal illegal drug. In Burma, the heart of heroin production, methamphetamine has become a major source of income for the drug trade. The relative ease of manufacturing methamphetamine from readily available chemicals appeals as much to small drug entrepreneurs as to the large international syndicates. It eliminates reliance on vulnerable crops, such as coca or opium poppy, and is not dependent on climate or growing season. Synthetics allow individual trafficking organizations to control the whole process, from manufacture to sale on the street. They

generate large profits and can be manufactured anywhere. There are centers of methamphetamine production in countries as far apart as Burma, China, North Korea, Mexico, and Poland.

Methamphetamine is one of the fastest-growing drug threats in the U.S. today. Well established drug trafficking organizations, based in Mexico and California, control a large percentage of the U.S. methamphetamine trade. Though Mexico is the principal foreign supplier of methamphetamine and precursors for the United States, we also have our own domestic methamphetamine production, as demonstrated by DEA, state, and local law enforcement's seizure of 7,502 methamphetamine laboratories in 2001.

Ecstasy, an amphetamine analogue, is another drug popular in the U.S. It is the nickname for 3, 4-methylenedioxymethamphetamine or MDMA. Ecstasy's rise was closely linked to the 1990's "rave" dance culture that swept up Europe's younger generation. Ecstasy's stimulant properties provided a chemical boost allowing participants to dance for hours at the all-night discotheque parties known as "raves." Ecstasy now has its own international cult following, evident from the numerous Internet sites that give detailed information on everything from how to make and use MDMA "safely" to discussions of possible dangers and medical consequences. Much of the MDMA available on the international drug market is manufactured in clandestine laboratories in the Netherlands. Dutch criminals are increasing manufacturing operations in nearby Belgium as well. Wholesale distribution of the drug is dominated by Israeli criminal organizations operating in Europe and to some extent in the United States.

Ecstasy's most pernicious quality is that many of its young users do not consider it a dangerous drug. It is promoted as a non-addictive stimulant without lasting side effects. When an addictive drug develops a reputation for being relatively benign, efforts to suppress it become correspondingly difficult. Throughout the world, ecstasy has become the drug of choice for young people in their late teens and early twenties, as seizure data in various INCSR chapters indicate. In 2001, authorities in countries as different as Denmark and South Africa reported important increases in ecstasy consumption and seizures.

### **Attacking the Traffickers**

Law enforcement authorities in key countries continued to weaken the drug syndicates by arresting their key figures and operatives. For example, an intense Mexican law enforcement offensive throughout 2001 resulted in the arrest of several important traffickers. In April, Mexican military units arrested Gilberto Garcia Mena of the Gulf Cartel, along with and three military officers, including a brigadier general. In May, the ex-governor of Quintana Roo, Mario Villanueva Madrid was arrested after a two-year manhunt. And in December, Mexican authorities captured Drug Kingpin Miguel Caro Quintero, who was wanted in both the U.S. and Mexico. Arresting high-level traffickers demonstrates—to the criminals and to the governments fighting them alike—that over time even the strongest syndicates are highly vulnerable to coordinated and sustained international pressure.

### **Improving Institutions**

We have been working with many governments to strengthen their judicial and banking systems to restrict the possibilities for penetration and manipulation by the drug trade. Judicial systems are particularly vulnerable. There have been instances where law enforcement agencies in source and transit countries have successfully jailed prominent traffickers, only to see them released after a seemingly indefensible or inexplicable decision by a single judge.

That situation is changing, thanks to U.S. assistance. In 2001, several countries continued to modify their laws and professionalize their court systems through reforms ranging from installing more modern equipment to changing the way judges are appointed. Though there are still instances of judges arbitrarily dismissing evidence against or releasing well-known drug traffickers, the number of such cases is declining, thanks to courageous action on the part of some governments.

### Extradition

Among the fates that drug bosses fear most is extradition to stand trial in the United States. The long sentences meted out in the U.S. to notorious drug criminals are vivid reminders of what can happen to even the most powerful drug criminals when they can no longer manipulate their environment through bribes and intimidation. Extradition, especially of nationals, has always been a very sensitive issue in a number of countries concerned over the perception that extraditing their citizens to the United States might be viewed as a derogation of national sovereignty. Willingness to extradite has therefore been a key indicator of political will and international trust.

Recently, cooperation on extradition has made great strides, especially in the Western Hemisphere. In 2001, the number of extraditions from Colombia to the U.S. skyrocketed. Twenty-three Colombian nationals were extradited, with eight more in the final stages of removal, an increase of nearly 700 percent over the prior three-year period. Among those extradited to the United States in 2001 were drug kingpins Alejandro “Juvenal” Bernal-Madrigal and Fabio Ochoa-Vasquez, former associates of the notorious Pablo Escobar. Dozens more are currently under arrest and awaiting approval for extradition. The Bolivian Supreme Court approved the extradition of Colombian citizen Eduardo Grajales-Posso to face trafficking charges in the U.S. He was successfully extradited to Miami in August.

In Mexico, long-standing bilateral extradition problems were both solved and exacerbated. The good news came when the Mexican Supreme Court in January 2001 affirmed the Government of Mexico’s authority to extradite Mexican nationals. A negative complication surfaced later in the year with another Supreme Court decision that found life sentences unconstitutional. This decision requires formal assurances that prospective extraditees will not face a life sentence in the requesting country. As currently worded, these decisions would limit the sort of sentence a prosecutor could request and a judge could impose.

### Money Laundering

The year 2001 saw important domestic and international advances in the fight against money laundering. The terrorist attacks of September 11 added urgency and intensity to a robust process already underway. During the year, the United States continued its vigorous inter-agency international anti-money laundering training program, totaling more than \$3.5 million, to improve worldwide efforts to combat money laundering and financial crime. Other governments and international organizations also strengthened anti-money laundering programs in 2001. The European Union broadened its anti-money laundering directive and imposed anti-money laundering obligations on “gatekeepers”—professionals such as lawyers and accountants who help place dirty money into the financial system. Regional anti-money laundering bodies in Europe, Asia and the Caribbean continued working effectively, and nascent anti-money laundering regional organizations in South America and Africa became operational.

The Financial Action Task Force (FATF), the world’s preeminent multilateral anti-money laundering body, continued its exercise to identify countries and territories that are non-cooperative in the international fight against money laundering. By year’s end, all fifteen jurisdictions on the original list had passed anti-money laundering legislation and four jurisdictions were removed from the list, while eight additional jurisdictions were identified as being non-cooperative.

The September 11 attacks spurred the world’s international organizations to take prompt action against terrorist financing. On September 28, 2001, the United Nations Security Council (UNSC) adopted Resolution 1373, which reaffirmed earlier UN counterterrorism resolutions 1269 and 1368 and required states to take prescribed actions to combat terrorism and the financing of terrorism.

The terrorist attacks gave strong impetus to many countries to amend and strengthen their money laundering laws. In the United States, Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (“USA PATRIOT”) Act of 2001 on October 26, 2001. This landmark piece of legislation made major changes to the U.S. anti-money laundering regime. The broad new authorities provided in the USA PATRIOT Act will have significant

influence on the relationships between U.S. financial institutions and their individual and institutional customers.

While the investigations of the financial links underlying the September 11th attacks demonstrated the value of measures that have been taken to identify, prevent and attack money laundering, they also revealed shortcomings. For example, after years of discussion, far too many countries still do not require identifying information about originators of international funds transfers. While most developed countries of the world now require banks to file suspicious activity reports, many still do not require non-bank financial institutions to do so. Some countries have yet to criminalize money laundering beyond drug-related offenses and many more do not have laws that address terrorist financing. September 11th demonstrated the need to do both. And many new initiatives that will be featured in anti-money laundering efforts in 2002 are now underway to try to overcome all of these deficiencies.

### **Precursor Chemicals**

Cocaine, heroin and synthetic drugs all require chemicals for their manufacture. This is a vulnerable point for traffickers in all these drugs. Cocaine and heroin refining operations require widely available “essential chemicals.” Substitutes can be used, but there are some key chemicals, potassium permanganate for cocaine and acetic anhydride for heroin which are difficult to substitute. Synthetic drug manufacture requires more specific “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. The United States, other major chemical trading countries, and the UN’s International Narcotics Control Board worked in 2001 with other states to improve informal multilateral systems of information exchange on chemicals to improve controls on the key cocaine and heroin chemicals, and those necessary for synthetic drugs. It is important to chemical control in general and to the effectiveness of these systems that countries have efficient legal and regulatory regimes to control chemicals, without placing undue burdens on legitimate commerce.

### **Controlling Supply**

The Department of State’s mission is to stem the flow of drugs to the United States. To do so, we 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. In the case of cocaine or heroin, 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 closer to the source we can attack, the better our chances of halting drug flows altogether. Crop control is by far the most cost-effective means of cutting supply. When crops are destroyed or left unharvested, no drugs can enter the system. It is akin to removing a malignant tumor before it can metastasize. In a perfect world, with no drug crops to harvest, no drugs could enter the distribution chain. Nor would there be any need for costly enforcement and interdiction operations.

Unfortunately, the real world of counternarcotics programs is not that simple. Crop reduction has enormous political and economic consequences for the producing country. It inevitably means attacking the livelihood of an important—often the poorest—sector of the population. Implementing lasting crop control programs takes time, as governments must develop viable alternatives for the affected population. Therefore, we also focus upon the processing and distribution stages of laboratory destruction and interdiction of drug shipments.

Though it is the most efficient way of eliminating a drug crop, large-scale eradication is neither politically nor socially feasible in many countries. Our programs consequently must be flexible enough to shift

resources to those links where we can have both an immediate and a long-term result. As our experience over the past few years in Peru and Bolivia has demonstrated, the right combination of effective law enforcement actions and alternative development programs can also deliver truly remarkable results. We work closely with the governments of the coca growing countries to find the best way to eliminate illegal coca within each country's national context.

### **Coca Reduction**

Our best opportunity for drug crop reduction lies in reducing the Andean coca crop. Large-scale coca cultivation takes place in only three countries—Colombia, Peru, and Bolivia. Modern technology allows us to locate the growing areas precisely and attack them. It is a much less difficult task than trying to stop drugs once they are in the transportation pipeline. A series of coca fields is a large, stationary target that is easier to destroy than the equivalent amount of finished cocaine distributed among trucks, boats, and aircraft. Eliminating coca on the ground is also highly cost-effective. USG studies conducted in the early 1990s indicate that in Bolivia and Peru, where the alkaloid content of the coca leaf is high, every 200 hectares of coca taken out of production deprives the drug trade, on average, of a little more than one metric ton of refined cocaine. Even manual eradication can make a difference. By this measure, the 9,200 hectares taken out of production in Bolivia combined with the 3,900 hectares eliminated in Peru potentially removed the equivalent of approximately 65 metric tons of cocaine from entering the system.

The most efficient crop control alternative, however, is to use our high-speed spray aircraft to fumigate the cultivation. 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. With the shift of the bulk of coca cultivation into the rebel-controlled zone of southwestern Colombia, our aircraft have faced a more difficult situation. Though the dense concentration of coca cultivation in a geographically confined area gives the planes a better target, it also exposes them to a level of hostile gunfire for which they were not designed. United States Government's assistance to Colombia should offer possibilities for dealing with this threat.

### **Illegal Drugs, Spraying, and the Environment**

Questions frequently arise over the environmental effects of spraying illegal drug crops. At this time, Colombia is the only country that allows aerial eradication of coca and opium poppy. The Colombian Government has authorized the herbicide that is being used to conduct aerial eradication in the growing areas. The only active ingredient in the herbicide used in the aerial eradication program is glyphosate, one of the most widely used agricultural herbicides in the world. It has been tested widely in the United States, Colombia, and elsewhere in the world. The U.S. Environmental Protection Agency (EPA) approved glyphosate for general use in 1974 and re-registered it in September 1993. It is approved by the EPA for use on cropland on which numerous crops are grown, forests, residential areas, and around aquatic areas. It has been one of the top five pesticides, including herbicides, used in the U.S.

### **Environmental Consequences of Illicit Coca Cultivation**

Over the past 20 years, coca cultivation in the Andean region has resulted in the destruction of at least 5.9 million acres of rainforest. Working in remote areas beyond settled populations, growers routinely slash and burn virgin forestland to make way for their illegal crops. As tropical rains erode the thin topsoil of the fields, growers must regularly abandon their parcels to prepare new plots—increasing soil erosion and runoff, depleting soil nutrients, and, by destroying timber and other resources that would otherwise be available for more sustainable uses, decreasing biological diversity. Traffickers also destroy jungle forests to build clandestine landing strips and laboratories for processing raw coca and poppy into cocaine and heroin.

Many of these illicit coca growers are equally negligent in their use of fertilizers and pesticides. Seeking to maximize their incomes, and being largely ignorant about the consequences of indiscriminate use of strong chemicals, coca growers dump large quantities of highly toxic herbicides and fertilizers on their crops. These chemicals include paraquat and endosulfan, both of which qualify under the U.S. Environmental Protection Agency's highest classification for toxicity (Category I) and are legally restricted for sale within Colombia and the United States.

Finally, toxic chemicals are used at each stage of cocaine production. USG studies conducted in the early 1990s in Bolivia and Peru indicated that one kilogram of cocaine base required the use of three liters of concentrated sulfuric acid, 10 kilos of lime, 60 to 80 liters of kerosene, 200 grams of potassium permanganate, and one liter of concentrated ammonia. These toxic pesticides, fertilizers, and processing chemicals are then dumped into the nearest waterway or on the ground. They saturate the soil and contaminate waterways, poisoning water systems and dependent species in the process.

### **Political Will**

A country's most powerful weapon against the drug trade is an intangible—political will. It is this force that determines whether an essential but politically controversial program will succeed or fail. Political will is also the only real defense against corruption, particularly in countries where low government salaries facilitate bribe and kickbacks. If political will is weak when criminal organizations are strong, corruption quickly infiltrates political and judicial systems. Left unchecked, such corruption inexorably undermines the rule of law and weakens democratic institutions. For this reason, a basic objective of U.S. counternarcotics policy is to bolster political will in the key source and transit countries in order to keep the drug trade from corrupting the political system. Our experience has shown that where political leaders have been strong enough to sacrifice short-term economic and political considerations in favor of the long-term national interest, criminal organizations lose their power. And where political will has wavered, we have seen the drug syndicates flourish and corruption set in.

### **Fighting Corruption**

The fight against the drug trade forms part of a broader struggle against corruption. The drug trade thrives on corruption in the way that an opportunistic disease breeds best amidst social and moral decay. Drug organizations wield a very powerful instrument for corruption: money in vast quantities, generated by drug trafficking. In terms of weight and availability, there is currently no commodity more lucrative than illegal drugs. In most cases, they are relatively cheap to produce and offer enormous profit margins that allow the drug trade to generate criminal revenues on a scale without historical precedent. Assuming an average U.S. retail street price of one hundred dollars a gram, a metric ton of pure cocaine is worth a \$100 million on the streets of the US; twice as much if the drug is cut with additives. By this measure, the 100 or so metric tons of cocaine that the USG typically seizes each year could theoretically be 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 nonetheless speaking of hundreds of millions, if not billions, of dollars. To put the magnitude of these sums into perspective, in FY 2001 the State Department's budget for international drug control operations was approximately \$348 million. That equates to roughly three and a half metric tons of cocaine; the drug syndicates have lost more than three times that amount in a single shipment without any evidence that they felt the loss.

Wealth on this scale confers on large trafficking organizations a practically unlimited capacity to corrupt, particularly in countries where government and law enforcement officials are poorly paid. For Colombia, where anti-democratic insurgents control and feed upon income from the drug trade, the threat is obvious. But even in economically weak countries without revolutionary movements, the drug trade's wealth makes it as great a threat to democratic government as an armed insurgency. Guerrilla armies or terrorist organizations overtly seek to topple governments by force; drug syndicates, like termites, prefer to destroy them surreptitiously from within. In theory, when a country's interior or defense minister,

attorney general, or even president, is on its payroll, the drug trade can count on a secure operating environment. And the longer established the drug organization, the stronger its capacity to corrupt.

The ultimate fear of all democratic leaders in drug-affected countries should be that one day traffickers might take de facto control of a country by putting a majority of elected officials, including the president, on the payroll. While fortunately this has yet to occur, there have been some close calls. The more we help deprive the drug trade of its capacity to corrupt, the less likely are we to see a true “narcocracy” spring up in our hemisphere.

## Next Steps

Fighting the international drug trade is a complex and dynamic process. It requires flexible cooperation across the whole spectrum of diplomacy and law enforcement. The incentives for amassing wealth and power are huge, especially as new market opportunities constantly spring up among new generations of potential users around the globe. The drug trade is always quick to detect and exploit these opportunities. While the affluent societies of the West offer the most obvious lucrative prospects, no country is safe from a drug abuse crisis.

Yet the drug trade also has its vulnerable points. Its survival depends on an extensive infrastructure that is difficult to conceal and subject to attack at every stage. It needs raw materials, processing chemicals, means of transportation, and some means of using their revenues. 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 stream of money to buy the drugs. 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, etc. 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.

Over the past few years, the international financial community, working through the FATF, has made considerable headway in closing off the major avenues for laundering drug money. The days when organizations could bank large blocs of cash or transfer enormous sums to anonymous bank accounts from developed nations with no questions asked are now distant memories. Yet our successes have also meant that we have obliged international criminals to become more creative in circumventing our roadblocks. We must therefore become even more ingenious in devising new ones. Working closely with our partners, we will encourage all governments to refine their oversight mechanisms, tighten loopholes in regulations, enact anti-money laundering legislation, and strictly enforce all money laundering laws. We also will look for more effective ways to identify, freeze, and seize illegal drug proceeds before they can be invested. Drug trafficking will lose much of its appeal if there is nowhere to spend the profits.

As one of the countries most affected by illegal drugs, the United States will continue to provide leadership and assistance to its partners in the global counternarcotics effort. Though we unquestionably have an important role to play, we alone will not determine the success or failure of this effort. Equally important are the actions, commitment, and cooperation of the other major drug-affected governments. We can help provide resources, but these are only as effective as the cooperative effort between those fighting the drug trade. In democracies, the drug trade flourishes only when it can divide the population and corrupt institutions. It cannot withstand a concerted, sustained attack by a coalition of democratic nations individually committed to its annihilation.

## Cocaine

Cocaine remains the most serious drug threat to the United States. Crack, the smokable variety of cocaine, is one of the most addictive drugs known. From the drug trade's vantage point, it is an ideal drug: cheap, potent, addictive, widely available, and immensely profitable. Though overall cocaine use has dropped markedly since the rampant consumption of the mid 1980's, cocaine's general availability means that at any time the drug could ensnare a new generation ignorant of its dangers. The National Institute on Drug Abuse's 2001 report on adolescent drug abuse, *Monitoring the Future*, notes how quickly cocaine and crack prevalence can change among high school students. Annual prevalence among 12th graders dropped from 12.7 percent in 1986 to 3.1 percent in 1992, when teenagers apparently recognized the danger that cocaine posed. Between 1992 and 1999, however, perceptions changed and cocaine use among 12th graders doubled to 6.2 percent before falling to 4.8 percent in 2001. Although this decline is encouraging, a figure of nearly five percent of 12th graders using cocaine is still an unsettling number. In the absence of supply reduction and prevention efforts, that percentage could quickly rise again.

Despite current counternarcotics efforts, hundreds of tons of cocaine enter the U.S. every year by land, air, and sea. Even the 100 metric tons or so of cocaine that the USG typically seizes annually have little discernible effect on price or availability. The combination of strong demand and extraordinary profits continue to make the United States the cocaine trade's largest single market, for the time being at least.

Cocaine traffickers are also creating large markets elsewhere in the world. For much of the past decade, the South American cocaine syndicates have been shipping hundreds of tons to Europe, where cocaine consumption has yet to peak. Although the principal consumers are in the most affluent cities of Western Europe, the syndicates are doing a brisk business in Eastern and Central Europe.

Africa has also attracted the cocaine syndicates' attention. Significant amounts of cocaine reach South Africa from South America, although smuggling groups in neighboring countries are also targeting South Africa as their market. Cocaine continues to be controlled in South Africa by Nigerian trafficking groups based in Johannesburg. South African enforcement authorities have established working links with their counterparts in Brazil to help break up the Nigerian trafficking groups responsible for most of the cocaine flow into Southern Africa. Nigerian traffickers, in turn, have permanently "stationed" their own operatives in Quito, Lima and Sao Paulo to control the couriers when they arrive from South Africa. The Nigerian groups maintain tight control of the distribution of cocaine right down to the street level.

### Cocaine Source and Transit Country Highlights 2001

In **Bolivia**, total potential national capacity to produce cocaine (assuming all coca, including legal leaf, were to be used) fell from 215 metric tons in 1996 to 60 metric tons in June 2001. Bolivian law enforcement authorities seized 4.5 metric tons of cocaine HCl and base in 2001.

In **Colombia**, government forces assisted by the USG sprayed over 86,000 hectares of coca in 2001. Coca cultivation has steadily increased over the last three years, though at a lessening rate: 28 percent in 1998, 20 percent in 1999, and 11 percent in 2000. Data for 2001 were not available at time of publication, but all indications were that the crop had again expanded. Most of the increase occurred in the rebel-held areas of Southwestern Colombia where aerial access to coca crops is difficult, dangerous, and until recently has been limited. In 2001, for the first time, the Colombian Government permitted aerial coca eradication in southwestern Putumayo, the densest area of coca cultivation in the world, a sign to the rebels that there is no sanctuary for drug crops. Colombian authorities seized 57 metric tons of cocaine HCl and 17.8 metric tons of paste and base in 2001.

In **Peru**, government forces manually eradicated 6,400 hectares of coca in 2001. Peruvian cocaine paste and HCl seizures rose slightly during the year to 8.5 metric tons. . One setback to operations may have been the suspension of the air-bridge interdiction program, following the tragic downing of a missionary



aircraft in April 2001. The USG is in the process of determining whether it is appropriate to resume joint interdiction programs in the wake of the incident.

There was evidence in 2001 of coca cultivation spreading in **Venezuela**. Counternarcotics operations carried out by the Venezuelan Army and National Guard located and eradicated coca fields as large as eight hectares. Of greater concern, however, was the discovery of the first coca paste processing labs in Venezuela. Three such labs were detected and destroyed during a mid-year operation. Several hundred kilograms of macerated coca leaf and coca paste provided clear evidence of an incipient cocaine processing effort in Venezuela.

Central American governments maintained active interdiction programs in 2001. **Guatemalan** law enforcement agencies interdicted 4.1 metric tons of cocaine in 2001, two and half times more than in 2000. Law enforcement authorities in **Panama** seized slightly over four metric tons of cocaine HCl. In **Costa Rica**, a combination of enhanced patrols by the Costa Rica Coast Guard and regular joint U.S.-Costa Rican operations has caused maritime traffickers to shift their northbound routes further out into the Eastern Pacific. During 2001, **Nicaraguan** authorities seized 2.7 metric tons of cocaine, more than double the quantity seized in 2000.

Because of its lack of natural choke points, the Pacific coast of **Mexico** continued to be the favored route for maritime drug trafficking. The events of September 11th caused the relocation of U.S. maritime interdiction assets from the Pacific coast of Mexico, leaving more open area for the drug smugglers. Mexican authorities seized 29.3 metric tons of cocaine in 2001, a 26 percent increase over the 2000 figure. Mexico faces an increased internal drug abuse threat related to drug trafficking. Crack use tripled during the period 1996 to 2000. There was a five-fold increase in cocaine consumption, from one percent in 1991 to about five percent of the population in 2000.

The USG estimates that 150 metric tons or more of cocaine transit the Caribbean annually en route to the U.S. In 2001, there was substantial drug trafficking through the **Eastern Caribbean** gateways to U.S. ports of entry in Puerto Rico and the U.S. Virgin Islands. Large quantities of cocaine are regularly smuggled into Puerto Rico from the Lesser Antilles, which includes territories of the United Kingdom (UK), the Netherlands, and France. Because of British, Dutch and French links with the region, the Eastern Caribbean has become a transit route to Western Europe. British authorities believe that approximately 30 percent of the drugs brought into the UK come from or through the Caribbean.

The islands of the **Netherlands Antilles**—Curaçao and Bonaire off Venezuela, and Saba, Saint Eustatius, and Saint Maarten east of the U.S. Virgin Islands—continue to serve as northbound transshipment points for cocaine and heroin coming chiefly from Colombia, Venezuela, and Suriname. These shipments typically move to U.S. territories in the Caribbean by go-fast boats and to Europe by drug couriers using commercial flights. Significant seizures in 2001 indicate that Dutch Saint Maarten, with its free port and proximity to U.S. territory, is an important staging area for moving cocaine and heroin into the U.S. market. DEA and local law enforcement saw an increase this year in go-fast boat traffic from Saint Maarten to Puerto Rico and the U.S. Virgin Islands.

## Heroin and Opiates

Though cocaine dominates the U.S. drug scene, heroin still hovers conspicuously in the background. While it is just as deadly and addictive as cocaine, heroin, as an opiate, has a property that appeals to the drug trade's long-term interests: addicts can develop a tolerance that lets them become life-long users. Where constant cocaine use may kill a regular user in five years, a heroin addiction can last for a decade or more, as long as the addict has access to a regular maintenance "fix." And sometimes such an addict can maintain the facade of a relatively normal life. This insidious property potentially assures the heroin trade of a long-term customer base of hard-core addicts.

There are approximately 977,000 heroin addicts in the United States. This number has held relatively steady over the past few years, since much of the user population consists of hard-core addicts. There has been concern, however, about heroin regaining its appeal among youth. Widespread availability of high-purity heroin that can be sniffed rather than injected has made it easier for youths to experiment with the drug. The latest *Monitoring the Future* study revealed widely fluctuating heroin use among U.S. teenagers over the past decade, depending on perceived risk of the drug. Prevalence rates among 12th graders had held at 0.5 percent for 14 years until 1993. Over the next four years, high school use tripled, most likely because of the advent of sniffable heroin. In 2001, there was some good news as prevalence declined significantly to 0.9 percent in 12th grade, suggesting an improved awareness of heroin's dangers.

Heroin's popularity elsewhere in the world seems assured. Since opium poppies can grow in almost any country, there is no dearth of heroin. The USG estimates for 2001 place potential opium production at nearly 1,240 metric tons. The bulk of the crop grows in Burma, which by itself probably could satisfy much of world heroin demand. With the drop in Afghan production, Southeast Asia once again became a source of heroin for Europe, as well as for supplying considerable demand within Southeast Asia itself.

As the chapters in this report indicate, heroin availability—and addiction—is rising throughout Europe and the countries of the former Soviet Union. The Balkan Route's northern, central, and southern branches form the artery carrying high-quality Afghan heroin into every important market in Europe. With Nigerians controlling much of the intercontinental heroin trade, Africa is an important region not only for heroin trafficking but also for transshipment to European destinations. Southeast Asia, the world's largest source of heroin, not only contributes to the bulk of world supply but also is an important consumer of heroin itself. Even China, which once had all but eliminated heroin addiction, is experiencing a serious rise in teenage addiction. In short, except from the vantage point of the heroin trade, the near-term outlook is not encouraging.

### Heroin Source and Transit Highlights

**Colombia** accounts for only about two percent of the world's opium poppy, though nearly all the resulting heroin is destined for the United States. The last estimate for Colombia's heroin production was in 1999 when potential heroin was estimated at nearly eight metric tons. Research in 2001 shows that this figure may be low, since yield and efficiency have improved. No crop estimate was possible in 2000 due to extensive cloud cover. Results for 2001 were not available at the time of publication.

A continuing cause for concern is the increase in poppy cultivation and opium latex production in **Peru**. The Toledo government and new drug czar have made eliminating opium poppies a high-priority issue, to keep Peru from becoming an important opium producer. Colombian narcotics traffickers supply Peruvian farmers with seeds from Colombian poppies, offering technical assistance and cash loans. These poppies are significantly larger and yield two to four crops per year of high-grade opium latex when grown in Peru.

**Mexico** remains the second largest Latin American grower of opium poppy. At the end of 2001, the Mexican government had eradicated over 17,000 hectares, leaving approximately 4,400 hectares yielding some 71 metric tons of opium gum. This is more than double the 1,900 hectares of poppy standing at the end of 2000. At current conversion rates, the 2001 levels could potentially yield some seven metric tons of heroin in 2001 as compared to 2.4 metric tons in 2000. A joint Mexican-USG study has found that opium poppies in Mexico's northern growing areas of Sinaloa, Durango, and Chihuahua, yield an estimated 21 kilograms of opium gum per hectare. This is twice as much as the yield of opium poppies cultivated in the south of the country. A bilateral team is evaluating the implications of these revised estimates which, when applied to the estimated net harvest area in past years, raise opium gum production in Mexico 30 to 50 percent per year.

Significant multi-kilogram seizures of heroin and the presence of heroin repackaging facilities underscore **Panama's** key role in the transfer of heroin from Colombia into the U.S. Heroin seizures for 2001 are at the highest recorded levels. This rise in heroin seizures is largely a result of the expanding world market

for Colombian heroin, coupled with a highly effective drug interdiction program at Panama's international airports.

**Europe** remains a steadily growing market for Southwest Asian heroin. The centuries-old Balkan smuggling route from Turkey to Austria has been expanded northward into Romania, Hungary, and the Czech and Slovak Republics, and southward through Croatia, Slovenia, the Former Yugoslav Republic of Macedonia, Greece and Albania. Turkish trafficking groups, with distributors in ethnic enclaves in major European cities, control much of the Balkan Route heroin trade.

Most of the heroin consumed in or transiting **France** originates in Southwest Asia (Afghanistan and Pakistan) and enters France via the Balkans, after passing through Iran and Turkey. New routes for transporting heroin from Southwest Asia to Europe are developing through Central Asia and Russia. West African drug traffickers are also using France as a transshipment point for heroin and cocaine. These traffickers move heroin from both Southwest Asia and Southeast Asia—primarily Burma—to the United States through West Africa and France. As of Spring 2001, France had seized almost half a metric ton of heroin.

**Germany's** central location in Europe makes it an ideal transit country for illicit narcotics. Most of the nearly half a metric ton of heroin seized in the first ten months of 2001 came from Turkey, via the Balkan Route. German Government authorities in 2001 for the first time encountered "white heroin," a particularly pure form of heroin refined from Afghan opium in Kazakhstan and Kyrgyzstan. Authorities seized almost 52.7 kilograms of white heroin during the first half of the year. The majority of heroin seizures were shipments destined for France and Austria.

**Italy** is a consumer country and a major transit point for heroin coming from the Middle East and Southwest Asia (Afghanistan) through the Balkans en route to Western and Central Europe and, to a lesser extent, the United States. Italian seizures of heroin increased sharply from just under one metric ton in 2000 to two metric tons in 2001.

While most of the heroin entering **Spain** in the past has come from Turkey via the Balkan Route, in 2001 Spanish authorities made their first seizure of heroin from Colombia. This is another indication of the degree to which the Colombian heroin industry is expanding.

Heroin trafficking and abuse continues to be the primary drug problem facing **Russia**. Although approximately half the heroin seized in 2001 was destined for onward transit, Russia is now a consumer country and faces a serious drug abuse problem. The sharp increase in Afghan heroin availability following the Taliban's selling off of stockpiles has caused the price of heroin to drop in Russia. This in turn has generated unprecedented demand. The Russian Ministry of Interior reported in October 2001 that there were approximately three million drug addicts in Russia, an increase in official estimates of 50 percent since 2000. Russian authorities consider heroin trafficking and abuse a significant threat to national security and public health. A sharp upsurge in HIV and AIDS infection has accompanied the rapid increase in serious heroin abuse and addiction. Certain areas in Russia now are said to have the fastest growing rate of HIV infection in the world.

**Ukraine** is a significant transit corridor for narcotics originating in Central and Southeast Asia, Afghanistan, Pakistan and former USSR republics, as well as in Central and Eastern Europe. Numerous ports on the Black and Azov seas, porous borders, and poorly financed, under-equipped border and customs controls make Ukraine attractive to drug trafficking activities.

The Central Asian countries of **Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan**, once important opium poppy-growing regions of the old Soviet Union, are now playing a greater role in heroin trafficking. Kazakhstan continues to be a significant highway for the shipment of drugs to Russia, China and Europe. Drug traffickers use the Bishkek-Moscow and the Dushanbe-Moscow rail lines to move drugs eastward. An official report noted that the number of HIV-positive persons in Kazakhstan jumped fourfold in the one-year period preceding the report. The study found that the great majority of HIV positive persons were infected through intravenous drug use.

Because of its border with Tajikistan, **Kyrgyzstan** (the Kyrgyz Republic) has become an important transit route for opium and heroin from Afghanistan to Russian and Western European markets. This drug flow has resulted in a corresponding rise in drug-related crimes in Kyrgyzstan itself. **Tajikistan** in 2001 remained a major conduit for smuggling opium and heroin from Afghanistan to Russia and Europe. During the first ten months of 2001, Tajik officials reportedly seized 8.1 tons of illegal narcotics, including 3.6 metric tons of opium and 3.9 metric tons of heroin. **Uzbekistan** is primarily a transit country for opiates and cannabis originating in Afghanistan. Law enforcement officers seized a total of 405.8 kilograms of illegal narcotics in the first six months of 2001. The government's eradication efforts, named "Operation Black Poppy," has all but eliminated illicit opium poppy cultivation in Uzbekistan.

In **Southwest Asia**, the USG estimates **Afghanistan's** total opium cultivation for 2000-2001 at 1,685 hectares with a potential opium production of 74 metric tons. Though the Taliban ban on opium poppies drastically reduced potential production, the release of stockpiled heroin further fueled drug trafficking. The resumption of widespread cultivation following the Taliban's collapse and the continued presence of traffickers within Afghanistan means the drug trade will continue to flourish the Afghan Interim Authority, with assistance from the international community, makes concerted enforcement efforts. Traffickers of Afghan opiates continue to market most of their product in Europe but also target the United States.

**Pakistan** has essentially achieved its ambitious goal of eliminating opium production by the year 2000. The opium poppy crop fell to a record low of 213 hectares in 2001, with cultivation concentrated in inaccessible areas of the Bara River Valley of Khyber Agency, on the border of Afghanistan's Nangarhar province. The USG estimated potential opium production for 2001 at five metric tons, compared to 11 metric tons in 2000. Pakistani authorities seized six metric tons of heroin and 4.7 metric tons of opium in the first 10 months of 2001.

**Africa** plays an important role in the global drug trade. Trafficking routes crisscross the continent, moving drugs to virtually all regions of the world. Nigeria remains Africa's most important heroin distribution hub, while Nigerian criminal organizations control much of the world's heroin traffic. Nigerian drug couriers dominate the international heroin smuggling trade. There is hardly a country that does not report the arrest of Nigerians for heroin trafficking. They operate throughout Africa, South America, Asia, and in every country of Europe, including Russia. Although the Government of Nigeria has taken measures to reduce the endemic corruption that facilitates drug trafficking, the deeply entrenched heroin trafficking organizations are so powerful that it will be difficult to overcome their dominance of the global heroin trade.

**Ghana** is a transit point for illegal drugs, particularly cocaine and heroin from South America, and Southeast and Southwest Asia. Europe remains the major destination, but drugs also flow to South Africa and to North America. While, in absolute terms, drugs transiting Ghana do not yet contribute significantly to the supply of drugs to the U.S. market, the country has become an increasingly important transshipment point. Direct flights from Accra play a leading role in the transshipment of heroin to the U.S. by West African trafficking organizations. These flights account for the largest quantity of heroin from Africa seized at New York's Kennedy airport.

With a well-developed economy and significant opportunities for corruption at all levels, **Côte d'Ivoire's** ports, airport, porous borders, and communications infrastructure offer great opportunity to drug traffickers. Seizures of heroin and cannabis were up in 2001 as were seizures of legitimate medications destined for illegal distribution. The target market for most of the narcotics passing through Côte d'Ivoire—principally heroin—remains Europe, with a smaller share ending up on the North American market.

**East Africa** is a logical transit point for heroin moving from Southwest Asia to Europe and the Western Hemisphere. **Ethiopia** is strategically placed along a major narcotics transit route between Southwest Asian heroin producing areas and Europe. West African trafficking networks control most of the East

African heroin trade, with Nigerian traffickers active in Ethiopia. Recent seizures indicate that opium poppy is being grown in Ethiopia, but only in a few small plots.

**Kenya** is strategically located along a major transit route between Southwest Asian producers of heroin and markets in Europe and North America. Once in Kenya, heroin is typically delivered to agents of West African crime syndicates. Heroin normally transits Kenya by air, carried by individual couriers. West Africans, South Asians and East Africans remain active couriers. Kenyan authorities, however, report an increase in European couriers carrying heroin through Kenya to Europe and North America. They have also noted a dramatic shift from low-purity brown heroin to high-purity white heroin. This change has been accompanied by a shift away from the European to the North American market.

**Tanzania** has become a significant transit country for narcotics moving in sub-Saharan Africa. Heroin trafficking in Tanzania is beginning to have an impact on the U.S., as Nigerian traffickers move Afghan heroin from Pakistan through Tanzania to U.S. destinations. Recently, a growing number of Tanzanians have been arrested abroad for serving as drug couriers.

Heroin is smuggled into **South Africa** from Southwest and Southeast Asia for onward shipment to Europe and, possibly, some small amount to the U.S. Domestic heroin consumption among South African youth has increased, particularly with the advent of smokable heroin. According to DEA and local NGOs monitoring epidemiological data in South Africa, South Africa has experienced a 40 percent increase in intravenous heroin users over the last three years, raising further concerns about the increased spread of HIV/AIDS.

In **Southeast Asia**, there have also been declines in opium poppy cultivation. A USG/Burma Joint Opium Yield Survey in 2001 found that opium production declined in **Burma** for the fifth straight year. The survey found that the maximum potential yield for opium in Burma in 2001 totaled 865 metric tons, down 220 metric tons (or approximately 20 percent) from 2000. Over the past five years, opium production in Burma declined by approximately two-thirds, from an estimated 2,560 metric tons in 1996 to 865 metric tons in 2001. The area under cultivation dropped by approximately 35 percent, from 163,100 hectares in 1996 to approximately 105,000 acres in 2001.

For the 2001 growing season, the USG estimated **Laos'** potential production at 210 metric tons, the same level as in 2000. The area under cultivation, however, decreased by five percent, from 23,150 hectares in 2000 to 22,000 in 2001. Higher yield estimates account for production holding steady while poppy cultivation has declined.

As a result of three decades of sustained crop reduction programs, **Thailand** is no longer a major producer of opium gum. In 2001, the USG estimated poppy cultivation to be less than 1000 hectares for the third year in a row. Addicts in Thailand now depend largely on imported heroin. Thailand is an important transit corridor for heroin produced in Burma and Laos.

## Demand Reduction

Drug “demand reduction” refers to efforts to reduce worldwide use and abuse of, and demand for narcotic drugs and psychotropic substances. The need for demand reduction is a fundamental and critical part of controlling the illicit drug trade. 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 increasingly request technical and other assistance from the USG to address their problems, citing long-term U.S. experience and efforts in this area. Our response has been comprehensive, balanced, and coordinated approach in which supply control and demand reduction reinforce each other. Such assistance plays an important role in helping to preserve the stability of societies threatened by the narcotics trade.

Our demand reduction strategy encompasses a wide range 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 coalitions of private/public social institutions, the faith community, and law enforcement entities 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 2001, INL and ONDCP co-sponsored the third United States-Mexico Demand Reduction Conference held in Mexico City on November 14-16, 2001. This initiative identified areas of bilateral collaboration in research, prevention, education, and treatment. INL continued to fund comprehensive multi-year scientific studies on pilot projects and programs developed from INL-funded training to learn how these initiatives can help assist U.S.-based demand reduction efforts. Previous smaller studies indicated that selected countries which have developed successful drug treatment/rehabilitation modalities from INL-funded training have high program retention rates and reduced rates of violence and recidivism. INL continued to sponsor sub-regional demand reduction academies in Medellin, Colombia and Sao Paulo, Brazil, and is planning a similar academy for Central America.

## **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 encourage contributions from other donors who are unable to undertake individual counternarcotics assistance programs. Counternarcotics assistance through international organizations also decreases 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 2001, Albania, Central African Republic, Djibouti, and Mauritius became parties to the 1988 UN Convention.

The Western Hemisphere continued to make tremendous strides in regional counternarcotics cooperation during 2001. At the April Summit of the Americas in Quebec, Canada, President Bush and other Heads of State approved the results of the first counternarcotics performance reviews conducted by the OAS’ Inter-American Drug Abuse Control Commission (OAS/CICAD)’s under the new Multilateral Evaluation Mechanism (MEM). The MEM is a hemispheric peer review system that was mandated by the Santiago Summit of the Americas in 1998. The Quebec Summit called on the OAS to further refine the process and to initiate follow-up reviews. During the rest of 2001, the OAS conducted an evaluation of national efforts to implement the MEM recommendations. These findings were publicly released by the OAS on January 30, 2002. The MEM will undertake another, more comprehensive review of national and hemispheric counternarcotics efforts during 2002.

The MEM has demonstrated its usefulness in identifying areas for improvement in national drug programs and offering governments practical suggestions for addressing problems or gaps. It is also helpful to international organizations and donor nations in channeling or prioritizing assistance and technical support. It has also contributed to a greater sense of partnership, shared responsibility, and frank dialogue among the governments of the hemisphere. As a transparent process, with publication of the findings, the U.S. anticipates that it will also help to promote broader public understanding of the seriousness of the drug situation in the hemisphere and support for stronger governmental action to promote drug abuse prevention and to combat drug trafficking and related problems.

# Methodology for Estimating Illegal Drug Production

**How Much Do We Know?** The INCSR contains 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. The numbers range from cultivation figures, relatively hard data derived by proven means, to crop production and drug yield estimates, data 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, even the best 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. Therefore, 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.

**Harvest Estimates.** 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. In all cases, however, multiplying average yields times available hectareage indicates only the potential, not the actual final drug crop available for harvest.

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 the various INCSR chapters for specific information.)

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 yield figures in the INCSR, bear in mind that they are theoretical. They are estimates of potential production—the quantities 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, opium poppy cultivation and potential opium production shrank modestly in 2001. The cultivated area fell to 130,120 hectares from 135,040 hectares the previous year. Potential opium gum production fell to 1,086 metric tons (from 1,318 metric tons in 2000), capable of yielding approximate 95 metric tons of heroin, if all the gum were processed.

Opium poppy cultivation plummeted 97 percent in Southwest Asia after the Taliban issued a cultivation ban in 2000. Total hectareage for Afghanistan and Pakistan dropped from 65,025 hectares in 2000 to 1,898 hectares in 2001. Total potential production for both countries fell from 3,667 metric tons to 79 metric tons, or roughly eight tons of heroin—equivalent to the amount theoretically available from Mexico or Colombia.

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, the last United States Government estimate in 1999 was 7,500 hectares, enough to yield an estimated 7.5 metric tons of opium gum, or a little less than eight tons of heroin, assuming no losses. Data is not yet available for 2000 or 2001. In Mexico, there were an estimated 4,400 hectares of opium poppy in 2001, after eradication. Assuming no losses, the estimated potential yield was 71 metric tons of opium gum, or approximately seven metric tons of heroin. Though no specific data was available, there is evidence of opium poppy expansion in Peru.

**Coca Cultivation.** Worldwide coca cultivation figures were not available at time of publication, since the annual survey for Colombia, the largest producer, was not complete. It is likely, however, the 2001 crop will be larger than the 2000 estimate of 136,200 hectares. In Bolivia, there were 19,900 hectares of coca detected as of June 1, 2001. Because of weather conditions, surveys in Bolivia will now cover the period June-June, rather than January-December. Peru's coca crop dropped marginally from 34,200 hectares at the end of 2000 to 34,000 at the end of 2001. Some coca was detected and eradicated in Venezuela in 2001. It is also likely that there is coca in inaccessible areas of Brazil, but its extent is unknown. Ecuador has 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 one would encounter in a “real world” conversion from plant to finished drug. In fact, the amount of cocaine HCL actually making it to market is probably lower. Efficiencies vary greatly from country to country

A meaningful estimate of potential cocaine HCl will not be available until the survey in Colombia is complete. The United States Government estimates that in 2001, 140 metric tons of cocaine HCl were potentially available from Peru and 60 metric tons potentially available from Bolivia. Expectations are that the amount potentially available from Colombia will not be less than last year’s estimate of 580 metric tons. Based on this information, at this time it appears that at least 780 metric tons of cocaine HCl were potentially produced in 2001. In publishing these numbers, we repeat our caveat that these are theoretical numbers, useful for examining trends. Though every year research moves us closer to a more precise cocaine yield estimate for Latin America, we do not yet know for certain the actual amount available for distribution.

### **Consumption Data**

Most of the chapters in this report contain some user or consumption data. For the most part, these are estimates provided by foreign governments or informal estimates by United States Government agencies. There is no way to vouch for their reliability. They are included because they are the only data available and give an approximation of how governments view their own drug abuse problems. They should not be considered as a source of data to develop any reliable consumption estimates.

### **Marijuana Production**

According to USG estimates, net marijuana production in Mexico in 2001 was 7,400 metric tons of cannabis, based on a net harvest area of 4,100 hectares of cultivation. This compares with 7,000 metric tons in a harvest area of 3,900 hectares in 2000. In Colombia’s traditional cannabis growing zones, cultivation is estimated to be about 4,000 hectares. We recognize that there may be considerable amounts of undetected cannabis cultivation in Central and East Asia, and on the African continent, though there is no evidence that any of this cannabis significantly affects the United States. As we gather more accurate information, we will report significant findings in future INCSRs.

## *Worldwide Illicit Drug Cultivation*

### 1993–2001 (All Figures in Hectares)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Opium</b>									
Afghanistan	1,685	64,510	51,500	41,720	39,150	37,950	38,740	29,180	21,080
India					2,050	3,100	4,750	5,500	4,400
Iran									
Pakistan	213	515	1,570	3,030	4,100	3,400	6,950	7,270	6,280
<b>Total SW Asia</b>	<b>1,898</b>	<b>65,025</b>	<b>53,070</b>	<b>44,750</b>	<b>45,300</b>	<b>44,450</b>	<b>50,440</b>	<b>41,950</b>	<b>31,760</b>
Burma	105,000	108,700	89,500	130,300	155,150	163,100	154,070	154,070	146,600
China							1,275	1,965	
Laos	22,000	23,150	21,800	26,100	28,150	25,250	19,650	19,650	18,520
Thailand	820	890	835	1,350	1,650	2,170	1,750	2,110	2,110
Vietnam	2,300	2,300	2,100	3,000	6,150	3,150			
<b>Total SE Asia</b>	<b>130,120</b>	<b>135,040</b>	<b>114,235</b>	<b>160,750</b>	<b>191,100</b>	<b>193,670</b>	<b>176,745</b>	<b>177,795</b>	<b>167,230</b>
Colombia	7,500	7,500	7,500	6,100	6,600	6,300	6,540	20,000	20,000
Lebanon						90	150		440
Guatemala							39	50	438
Mexico	4,400	1,900	3,600	5,500	4,000	5,100	5,050	5,795	3,960
<b>Total Other</b>	<b>11,900</b>	<b>9,400</b>	<b>11,100</b>	<b>11,600</b>	<b>10,600</b>	<b>11,490</b>	<b>11,779</b>	<b>25,845</b>	<b>24,838</b>
<b>Total Opium</b>	<b>143,918</b>	<b>209,465</b>	<b>178,405</b>	<b>217,100</b>	<b>247,000</b>	<b>249,610</b>	<b>238,964</b>	<b>245,590</b>	<b>223,828</b>
<b>Coca</b>									
Bolivia <sup>1</sup>	19,900	14,600	21,800	38,000	45,800	48,100	48,600	48,100	47,200
Colombia <sup>2</sup>	136,200	136,200	122,500	101,800	79,500	67,200	50,900	45,000	39,700
Peru	34,000	34,200	38,700	51,000	68,800	94,400	115,300	108,600	108,800
Ecuador									
<b>Total Coca</b>	<b>190,100</b>	<b>185,000</b>	<b>183,000</b>	<b>190,800</b>	<b>194,100</b>	<b>209,700</b>	<b>214,800</b>	<b>201,700</b>	<b>195,700</b>
<b>Cannabis</b>									
Mexico	3,900	3,900	3,700	4,600	4,800	6,500	6,900	10,550	11,220
Colombia	5,000	5,000	5,000	5,000	5,000	5,000	5,000	4,986	5,000
Jamaica					317	527	305	308	744
<b>Total Cannabis</b>	<b>8,900</b>	<b>8,900</b>	<b>8,700</b>	<b>9,600</b>	<b>10,117</b>	<b>12,027</b>	<b>12,205</b>	<b>15,844</b>	<b>16,964</b>

<sup>1</sup> Beginning in 2001, USG surveys of Bolivian coca take place cover the period June to June.

<sup>2</sup> Since survey data were not available at time publication, we have repeated the 2000 figures as place holders.

## *Worldwide Illicit Drug Cultivation*

### 1987–1992 (All Figures in Hectares)

	1992	1991	1990	1989	1988	1987
<b>Opium</b>						
Afghanistan	19,470	17,190	12,370	18,650	23,000	18,500
India						
Iran						
Pakistan	8,170	8,205	8,220	6,050	11,588	9,970
<b>Total SW Asia</b>	<b>27,640</b>	<b>25,395</b>	<b>20,590</b>	<b>24,700</b>	<b>34,588</b>	<b>28,470</b>
Burma	153,700	160,000	150,100	143,000	104,200	76,021
China						
Laos	25,610	29,625	30,580	42,130	40,400	
Thailand	2,050	3,000	3,435	4,075	2,843	2,934
<b>Total SE Asia</b>		<b>192,625</b>	<b>184,185</b>	<b>189,205</b>	<b>147,443</b>	<b>78,955</b>
Colombia	<b>181,360</b>	1,160				
Lebanon	20,000	3,400	3,200	4,500	na	na
Guatemala	na	1,145	845	1,220	710	
Mexico	730	3,765	5,450	6,600	5,001	5,160
Vietnam	3,310					
<b>Total Other</b>	<b>24,040</b>	<b>9,470</b>	<b>9,495</b>	<b>12,320</b>	<b>5,711</b>	<b>5,160</b>
<b>Total Opium</b>	<b>233,040</b>	<b>227,490</b>	<b>214,200</b>	<b>226,225</b>	<b>187,742</b>	<b>112,585</b>
<b>Coca</b>						
Bolivia	45,500	47,900	50,300	52,900	48,900	41,300
Colombia	37,100	37,500	40,100	42,400	34,000	25,600
Peru	129,100	120,800	121,300	120,400	110,400	108,800
Ecuador		40	120	150	240	300
<b>Total Coca</b>	<b>211,700</b>	<b>206,240</b>	<b>211,820</b>	<b>215,850</b>	<b>193,540</b>	<b>176,000</b>
<b>Cannabis</b>						
Mexico	16,420	17,915	35,050	53,900	5,003	5,250
Colombia	2,000	2,000	1,500	2,270	4,188	5,005
Jamaica	389	950	1,220	280	607	680
<b>Total Cannabis</b>	<b>18,809</b>	<b>20,865</b>	<b>37,770</b>	<b>56,450</b>	<b>9,798</b>	<b>10,935</b>

## *Worldwide Potential Illicit Drug Production* 1993–2001 (All Figures in Metric Tons)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Opium Gum</b>									
Afghanistan	74	3,656	2,861	2,340	2,184	2,174	1,250	950	685
India					30	47	77	90	
Iran									
Pakistan	5	11	37	66	85	75	155	160	140
<b>Total SW Asia</b>	<b>79</b>	<b>3,667</b>	<b>2,898</b>	<b>2,406</b>	<b>2,299</b>	<b>2,296</b>	<b>1,482</b>	<b>1,200</b>	<b>825</b>
Burma	865	1,085	1,090	1,750	2,365	2,560	2,340	2,030	2,575
China							19	25	
Laos	200	210	140	140	210	200	180	85	180
Thailand	6	6	6	16	25	30	25	17	42
Vietnam	15	15	11	20	45	25			
<b>Total SE Asia</b>	<b>1,086</b>	<b>1,316</b>	<b>1,247</b>	<b>1,926</b>	<b>2,645</b>	<b>2,815</b>	<b>2,564</b>	<b>2,157</b>	<b>2,797</b>
Colombia			75	61	66	63	65		
Lebanon						1	1		4
Guatemala									
Mexico	71	27	60	93	64	54	53	60	49
<b>Total Other</b>	<b>71</b>	<b>27</b>	<b>135</b>	<b>154</b>	<b>130</b>	<b>118</b>	<b>119</b>	<b>60</b>	<b>53</b>
<b>Total Opium</b>	<b>1,236</b>	<b>5,010</b>	<b>4,280</b>	<b>4,486</b>	<b>5,074</b>	<b>5,229</b>	<b>4,165</b>	<b>3,417</b>	<b>3,675</b>
<b>Coca Leaf</b>									
Bolivia <sup>1</sup>	20,200	26,800	22,800	52,900	70,100	75,100	85,000	89,800	84,400
Colombia <sup>2</sup>	583,000	583,000	521,400	437,600	347,000	302,900	229,300	35,800	31,700
Peru	52,600	54,400	69,200	95,600	130,200	174,700	183,600	165,300	155,500
Ecuador									100
<b>Total Coca</b>	<b>655,800</b>	<b>664,200</b>	<b>613,400</b>	<b>586,100</b>	<b>547,300</b>	<b>552,700</b>	<b>497,900</b>	<b>290,900</b>	<b>271,700</b>
<b>Cannabis</b>									
Mexico	7,400	7,000	3,700	8,300	8,600	11,700	12,400	5,540	6,280
Colombia	4,000	4,000	4,000	4,000	4,133	4,133	4,133	4,138	4,125
Jamaica					214	356	206	208	502
Belize									
Others	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
<b>Total Cannabis</b>	<b>14,900</b>	<b>14,500</b>	<b>11,200</b>	<b>15,800</b>	<b>16,447</b>	<b>19,689</b>	<b>20,239</b>	<b>13,386</b>	<b>14,407</b>

<sup>1</sup> Beginning in 2001, USG surveys of Bolivian coca take place cover the period June to June.

<sup>2</sup> Since survey data were not available at time publication, we have repeated the 2000 figures as place holders.

## *Worldwide Potential Illicit Drug Production* 1987–1992 (All Figures in Metric Tons)

	1992	1991	1990	1989	1988	1987
<b>Opium Gum</b>						
Afghanistan	640	570	415	585	750	600
India						
Iran						300
Pakistan	175	180	165	130	205	205
<b>Total SW Asia</b>	<b>815</b>	<b>750</b>	<b>580</b>	<b>715</b>	<b>955</b>	<b>1,105</b>
Burma	2,280	2,350	2,255	2,430	1,280	835
China						
Laos	230	265	275	380	255	225
Thailand	24	35	40	50	25	24
Vietnam						
<b>Total SE Asia</b>	<b>2,534</b>	<b>2,650</b>	<b>2,570</b>	<b>2,860</b>	<b>1,560</b>	<b>1,084</b>
Colombia						
Lebanon		34	32	45		
Guatemala		11	13	12	8	3
Mexico	40	41	62	66	67	50
<b>Total Other</b>	<b>40</b>	<b>86</b>	<b>107</b>	<b>123</b>	<b>75</b>	<b>53</b>
<b>Total Opium</b>	<b>3,389</b>	<b>3,486</b>	<b>3,257</b>	<b>3,698</b>	<b>2,590</b>	<b>2,242</b>
<b>Coca Leaf</b>						
Bolivia	80,300	78,000	77,000	78,200	79,500	79,200
Colombia	29,600	30,000	32,100	33,900	27,200	20,500
Peru	223,900	222,700	196,900	186,300	187,700	191,000
Ecuador	100	40	170	270	400	400
<b>Total Coca</b>	<b>333,900</b>	<b>330,740</b>	<b>306,170</b>	<b>298,670</b>	<b>294,800</b>	<b>291,100</b>
<b>Cannabis</b>						
Mexico	7,795	7,775	19,715	30,200	5,655	5,933
Colombia	1,650	1,650	1,500	2,800	7,775	5,600
Jamaica	263	641	825	190	405	460
Belize		49	60	65	120	200
Others	3,500	3,500	3,500	3,500	3,500	1,500
<b>Total Cannabis</b>	<b>13,208</b>	<b>13,615</b>	<b>25,600</b>	<b>36,755</b>	<b>17,455</b>	<b>13,693</b>

## *Parties to the 1988 UN Convention*

<b>Country</b>	<b>Date Signed</b>	<b>Date Became a Party</b>
1. Afghanistan	20 December 1988	14 February 1992
2. Albania	Accession	27 June 2001
3. Algeria	20 December 1988	5 May 1995
4. Andorra	Accession	23 July 1999
5. Antigua and Barbuda	Accession	5 April 1993
6. Armenia	20 December 1988	28 June 1993
7. Argentina	Accession	13 September 1993
8. Australia	14 February 1989	16 November 1992
9. Austria	25 September 1989	11 July 1997
10. Azerbaijan	Accession	22 September 1993
11. Bahamas	20 December 1988	30 January 1989
12. Bahrain	28 September 1989	7 February 1990
13. Bangladesh	14 April 1989	11 October 1990
14. Barbados	Accession	15 October 1992
15. Belarus	27 February 1989	15 October 1990
16. Belgium	22 May 1989	25 October 1995
17. Belize	Accession	24 July 1996
18. Benin	Accession	23 May 1997
19. Bhutan	Accession	27 August 1990
20. Bolivia	20 December 1988	20 August 1990
21. Bosnia and Herzegovina	Succession	01 September 1993
22. Botswana	Accession	13 August 1996
23. Brazil	20 December 1988	17 July 1991
24. Brunei Darussalam	26 October 1989	12 November 1993
25. Bulgaria	19 May 1989	24 September 1992
26. Burkina Faso	Accession	02 June 1992
27. Burma	Ratified	11 June 1991
28. Burundi	Accession	18 February 1993
29. Cameroon	27 February 1989	28 October 1991
30. Canada	20 December 1988	05 July 1990
31. Cape Verde	Accession	08 May 1995
32. Central African Republic	Accession	15 October 2001

## Policy and Program Development

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Country	Date Signed	Date Became a Party
33. Chad	Accession	09 June 1995
34. Chile	20 December 1988	13 March 1990
35. China	20 December 1988	25 October 1989
36. Colombia	20 December 1988	10 June 1994
37. Comoros	Accession	1 March 2000
38. Costa Rica	25 April 1989	8 February 1991
39. Cote d'Ivoire	20 December 1988	25 November 1991
40. Croatia	Succession	26 July 1993
41. Cuba	7 April 1989	12 June 1996
42. Cyprus	20 December 1988	25 May 1990
43. Czech Republic	Succession	30 December 1993
44. Denmark	20 December 1988	19 December 1991
45. Djibouti	Accession	22 February 2001
46. Dominica	Accession	30 June 1993
47. Dominican Republic	Accession	21 September 1993
48. European Economic Community	8 June 1989	31 December 1990
49. Ecuador	21 June 1988	23 March 1990
50. Egypt	20 December 1988	15 March 1991
51. El Salvador	Accession	21 May 1993
52. Estonia	Accession	12 July 2000
53. Ethiopia	Accession	11 October 1994
54. Fiji	Accession	25 March 1993
55. Finland	8 February 1989	15 February 1994
56. France	13 February 1989	31 December 1990
57. Gambia	Accession	23 April 1996
58. Germany	19 January 1989	30 November 1993
59. Georgia	Accession	8 January 1998
60. Ghana	20 December 1988	10 April 1990
61. Greece	23 February 1989	28 January 1992
62. Grenada	Accession	10 December 1990
63. Guatemala	20 December 1988	28 February 1991
64. Guinea	Accession	27 December 1990
65. Guyana	Accession	19 March 1993
66. Haiti	Accession	18 September 1995
67. Honduras	20 December 1988	11 December 1991

Country	Date Signed	Date Became a Party
68. Hungary	22 August 1989	15 November 1996
69. Iceland	Accession	2 September 1997
70. India	Accession	27 March 1990
71. Indonesia	27 March 1989	23 February 1999
72. Iran	20 December 1988	7 December 1992
73. Iraq	Accession	22 July 1998
74. Ireland	14 December 1989	3 September 1996
75. Italy	20 December 1988	31 December 1990
76. Jamaica	2 October 1989	29 December 1995
77. Japan	19 December 1989	12 June 1992
78. Jordan	20 December 1988	16 April 1990
79. Kazakhstan	Accession	29 April 1997
80. Kenya	Accession	19 October 1992
81. Korea	Accession	28 December 1998
82. Kuwait	2 October 1989	3 November 2000
83. Kyrgyzstan	Accession	7 October 1994
84. Latvia	Accession	24 February 1994
85. Lesotho	Accession	28 March 1995
86. Lebanon	Accession	11 March 1996
87. Libyan Arab Jamahiriya	Accession	22 July 1996
88. Lithuania	Accession	8 June 1998
89. Luxembourg	26 September 1989	29 April 1992
90. Macedonia, Former Yugoslav Rep.	Accession	18 October 1993
91. Madagascar	Accession	12 March 1991
92. Malaysia	20 December 1988	11 May 1993
93. Malawi	Accession	12 October 1995
94. Maldives	5 December 1989	7 December 2000
95. Mali	Accession	31 October 1995
96. Malta	Accession	28 February 1996
97. Mauritania	Accession	1 July 1993
98. Mauritius	20 December 1988	6 March 2001
99. Mexico	16 February 1989	11 April 1990
100. Moldova	Accession	19 February 1995
101. Monaco	24 February 1989	23 April 1991
102. Morocco	28 December 1988	28 October 1992



## Policy and Program Development

<b>Country</b>	<b>Date Signed</b>	<b>Date Became a Party</b>
103.Mozambique	Accession	8 June 1998
104.Nepal	Accession	24 July 1991
105.Netherlands	18 January 1992	8 September 1993
106.Nicaragua	20 December 1988	4 May 1990
107.Niger	Accession	10 November 1992
108.Nigeria	1 March 1989	1 November 1989
109.Norway	20 December 1988	1 January 1994
110.Oman	Accession	15 March 1991
111.Pakistan	20 December 1988	25 October 1991
112.Panama	20 December 1988	13 January 1994
113.Paraguay	20 December 1988	23 August 1990
114.Peru	20 December 1988	16 January 1992
115.Philippines	20 December 1988	7 June 1996
116.Poland	6 March 1989	26 May 1994
117.Portugal	13 December 1989	3 December 1991
118.Qatar	Accession	4 May 1990
119.Romania	Accession	21 January 1993
120.Russia	19 January 1989	17 December 1990
121.St. Kitts and Nevis	Accession	19 April 1995
122.St. Lucia	Accession	21 August 1995
123.St. Vincent and the Grenadines	Accession	17 May 1994
124.San Marino	Accession	10 October 2000
125.Sao Tome and Principe	Accession	20 June 1996
126.Saudi Arabia	Accession	9 January 1992
127.Senegal	20 December 1988	27 November 1989
128.Seychelles	Accession	27 February 1992
129.Sierra Leone	9 June 1989	6 June 1994
130.Singapore	Accession	23 October 1997
131.Slovakia	Succession	28 May 1993
132.Slovenia	Succession	6 July 1992
133.South Africa	Accession	14 December 1998
134.Spain	20 December 1988	13 August 1990
135.Sri Lanka	Accession	6 June 1991
136.Sudan	30 January 1989	19 November 1993
137.Suriname	20 December 1988	28 October 1992

Country	Date Signed	Date Became a Party
138. Swaziland	Accession	3 October 95
139. Sweden	20 December 1988	22 July 1991
140. Syria	Accession	3 September 1991
141. Tajikistan	Accession	6 May 1996
142. Tanzania	20 December 1988	17 April 1996
143. Trinidad and Tobago	7 December 1989	17 February 1995
144. Togo	3 August 1989	1 August 1990
145. Tonga	Accession	29 April 1996
146. Tunisia	19 December 1989	20 September 1990
147. Turkey	20 December 1988	2 April 1996
148. Turkmenistan	Accession	21 February 1996
149. UAE	Accession	12 April 1990
150. Uganda	Accession	20 August 1990
151. Ukraine	16 March 1989	28 August 1991
152. United Kingdom	20 December 1988	28 June 1991
153. United States	20 December 1988	20 February 1990
154. Uruguay	19 December 1989	10 March 1995
155. Uzbekistan	Accession	14 August 1995
156. Venezuela	20 December 1988	16 July 1991
157. Vietnam	Accession	4 November 1997
158. Yemen	20 December 1988	25 March 1996
159. Yugoslavia	20 December 1988	3 January 1991
160. Zambia	9 February 1989	28 May 1993
161. 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. Mauritius	20 December 1988	
5. New Zealand	18 December 1989	
6. Philippines	20 December 1988	
7. Switzerland	16 November 1989	Not UN member
8. Zaire	20 December 1988	

## Policy and Program Development

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<b>Other</b>	
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. Congo	
9. Djibouti	
10. DPR Korea	
11. Hong Kong	Not UN member
12. Laos	
13. Liberia	
14. Liechtenstein	
15. Marshall Islands	
16. Micronesia, Federated States of	
17. Mongolia	
18. Namibia	
19. Papua New Guinea	
20. Samoa	
21. Sao Tome and Principe	
22. Taiwan	Not UN member
23. Thailand	
24. Turks & Caicos	Not UN member
25. Vanuatu	



# **USG ASSISTANCE**



## DoS (INL) Budget by Program (\$000)

	FY 2000 SUPP	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
<b>Andean Counterdrug Initiative (ACI)<sup>1</sup></b>				
Bolivia: Interdiction & Eradication	25,000	35,000	48,000	49,000
Alt Dev/Institution Building	85,000	17,000	33,000	42,000
Colombia: Interdiction & Eradication	635,500	48,000	243,500	275,000
Alt Dev/Institution Building	203,000	—	137,000	164,000
Ecuador: Interdiction & Eradication	12,000	2,200	15,000	21,000
Alt Dev/Institution	8,000	—	10,000	16,000
Peru: Interdiction & Eradication	32,000	21,000	75,000	66,000
Alt Dev/Institution	—	27,000	67,500	69,000
Brazil	3,500	2,000	6,000	12,000
Venezuela	3,500	1,200	5,000	8,000
Panama	4,000	1,363	5,000	9,000
Latin America Andean Regional	7,000	—	—	—
<b>Total for ACI</b>	<b>1,018,500</b>	<b>154,763</b>	<b>645,000</b>	<b>731,000</b>
<b>International Narcotics and Law Enforcement (INCLE)</b>				
<b>Other Counternarcotics Programs</b>				
Other Latin America				
Bahamas	—	1,200	1,200	1,200
Guatemala	—	3,000	3,500	3,400
Jamaica	—	257	1,550	1,300
Mexico	—	10,000	12,000	12,000
Latin America Regional	—	8,537	10,000	9,500
<b>Subtotal Other Latin America</b>	<b>—</b>	<b>22,994</b>	<b>28,250</b>	<b>27,400</b>
Asia Regional				
Laos	—	4,200	4,200	3,000
Pakistan	—	3,500	2,500	4,000
Pakistan Border Security Supplemental	—	—	73,000	—
Thailand	—	4,095	4,000	3,750
Asia Regional Cooperation	—	2,233	5,050	4,500
Southwest Asia Initiative	—	—	3,000	3,000
<b>Subtotal Asia Regional</b>	<b>—</b>	<b>14,028</b>	<b>91,750</b>	<b>18,250</b>
Interregional Aviation Support	—	50,000	60,000	65,000
<b>Subtotal Country Programs (includes ACI)</b>	<b>1,018,500</b>	<b>241,785</b>	<b>825,000</b>	<b>841,650</b>
International Organizations	—	12,000	16,000	13,000
Drug Awareness/Demand Reduction <sup>2</sup>	—	4,500	5,000	5,000
Systems Support/Upgrades	—	4,000	6,000	4,000
Program Development & Support <sup>3</sup>	—	12,187	13,703	14,563
<b>Total Counternarcotics Programs (includes ACI)</b>	<b>1,018,500</b>	<b>274,472</b>	<b>865,703</b>	<b>878,213</b>
<b>Anticrime Programs</b>				
INL Anticrime Programs	—	22,450	20,330	14,000
Civilian Police Contingent	—	10,000	—	5,000
Africa Regional Anticrime	—	7,500	7,500	7,000
International Law Enforcement Academy	—	7,300	14,500	14,500
Trafficking in Persons	—	3,250	7,670	10,000
<b>Total Anticrime Programs</b>	<b>—</b>	<b>50,500</b>	<b>50,000</b>	<b>50,500</b>
<b>Total INCLE (excludes ACI)</b>	<b>—</b>	<b>170,209</b>	<b>270,703</b>	<b>197,713</b>
<b>Total INL Programs<sup>4</sup></b>	<b>1,018,500</b>	<b>324,972</b>	<b>915,703</b>	<b>928,713</b>

<sup>1</sup> The Andean Counterdrug Initiative (ACI), the INL component of the Andean Regional Initiative, began in FY 2002.

<sup>2</sup> Regional Law Enforcement Training funding moved to Anticrime Programs in FY 2002. FY 2001 was adjusted accordingly.

<sup>3</sup> The FY 2003 total for Program Development and Support includes \$ 0.713 million for full funding of federal employee retirement costs. The comparable amounts for FY 2002 (\$ 0.703 million) and FY 2001 (\$ 0.687 million) are included in totals.

<sup>4</sup> The totals do not include FSA and SEED Act funding transfers from USAID, nor PKO funding allocated by State PM. The total for FY 2001 includes a rescission of \$ 0.715 million. The INL Programs total minus the ACI subtotal equals the INCLE total.

## DoS (INL) Budget by Function (\$000)

	FY 2001 Actual	% of Total	FY 2002 Estimate.	% of Total	FY 2003 Request	% of Total
<b>Counternarcotics Programs</b>						
Law Enforcement Assistance and Institution Development	115,126	35.5	542,171	59.2	524,321	56.5
Eradication, Crop Control and Alternative Development	105,270	32.4	258,585	28.3	286,905	30.9
International Organizations	12,000	3.7	16,000	1.8	13,000	1.4
Drug Awareness and Demand Reduction <sup>1</sup>	8,309	2.5	9,630	1.0	11,820	1.3
Program Development and Support <sup>2</sup>	33,767	10.4	39,317	4.2	42,167	4.5
<b>Total Counternarcotics Programs</b>	<b>274,472</b>	<b>84.5</b>	<b>865,703</b>	<b>94.5</b>	<b>878,213</b>	<b>94.6</b>
<b>Anticrime Programs</b>						
INL Anticrime Programs	22,450	6.9	20,330	2.2	14,000	1.5
Civilian Police Contingent	10,000	3.1	—	0.0	5,000	0.5
Africa Regional Anticrime	7,500	2.3	7,500	0.8	7,000	0.8
International Law Enforcement Academy	7,300	2.2	14,500	1.6	14,500	1.6
<b>Total Anticrime Programs</b>	<b>50,500</b>	<b>15.5</b>	<b>50,000</b>	<b>5.5</b>	<b>50,500</b>	<b>5.4</b>
<b>Total INL Program Plan<sup>3</sup></b>	<b>324,972</b>	<b>100</b>	<b>915,703</b>	<b>100</b>	<b>928,713</b>	<b>100</b>

<sup>1</sup> Regional Law Enforcement Training funding was moved to Anticrime Programs in FY 2002. FY 2001 was adjusted accordingly.

<sup>2</sup> The FY 2003 total for Program Development and Support includes \$ 0.713 million for full funding of federal employee retirement costs. The comparable amounts for FY 2002 (\$ 0.703 million) and FY 2001 (\$ 0.687 million) are included in those totals.

<sup>3</sup> The totals do not include FSA and SEED Act funding transfers from USAID, nor PKO funding allocated by State PM. The total for FY 2001 includes a rescission of \$ 0.715 million.



# 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 3,500 persons participated in the United States Government's international narcotics control training program in FY 2001.

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 2001, 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.

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
<b>Drug Enforcement Administration</b>		
<i>Training in Host Countries</i>		
In-Country Drug Enforcement Seminar	396	13
Advanced Drug Enforcement Seminar	265	14
Int'l Asset Forfeiture Seminar	35	3
Airport Operations	31	3
Specialized	229	159
<b>Subtotal</b>	<b>965</b>	<b>192</b>
<b>U.S. Customs Service</b>		
<i>Training in Host Countries</i>		
Specialized Training	1,596	30
Overseas Enforcement Training	55	2
Regional Overseas Enforcement Training	225	6
Train-the-Trainer Workshop	22	2
Short Term Advisory	117	2
Contraband Enforcement Team	162	6
Integrity/Anti-Corruption	186	10
<b>Subtotal</b>	<b>2,363</b>	<b>58</b>
<b>U.S. Coast Guard</b>		
<i>Training in Host Countries</i>		
Specialized Training	127	5
Maritime Law Enforcement	186	5
<b>Subtotal</b>	<b>313</b>	<b>10</b>
<b>Total INL-Funded Training FY 2001</b>	<b>3,632</b>	<b>260</b>

# 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 United States. These illegal drugs are smuggled from the countries of their source, usually through other countries and ultimately ending in the United States. Thus, the reduction of illicit drug availability in the United States 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 counternarcotics strategy is accomplished through the 77 offices in 57 countries worldwide. The DEA overseas mission is as follows:

- Conduct bilateral investigative activities,
- Coordinate intelligence gathering ,
- Coordinate training programs for host country police agencies, and
- Assist in the development of host country drug law enforcement institutions and engage in foreign liaisons.

In most countries where DEA maintains offices, DEA carries out all of the above functions. However, the emphasis on each function is determined by the existing conditions 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 highlight the assistance that DEA provided during 2001 to host nation counterparts in support of the four function areas.

## Bilateral Investigations

DEA'S 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 United States, or a third nation. When 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 accentuate DEA's role in bilateral investigations.

In May 2001, Oded Tuito, a fugitive from the United States, was arrested in Barcelona, **Spain**. Tuito had been the target of numerous ecstasy and cocaine trafficking investigations by DEA offices in the United States, England, France, Germany, Israel, The Netherlands, and Spain. As a result of the investigation, 39 individuals were arrested and 1,022,648 MDMA tablets were seized.

Operation TIGER TRAP fugitive YANG Wan Hsuan was extradited from **Thailand** to face prosecution in the Eastern District of New York for attempted heroin importation, distribution, and conspiracy. TIGER TRAP was a 1994 multi-agency international operation that disrupted the trafficking activities of the world's largest heroin trafficking organization, the Shan United Army. To date, YANG is the highest level trafficker ever extradited from Southeast Asia to face prosecution in the United States.

The **Brasilia** and **Bogota** Country Offices conducted a multilateral investigation in collaboration with Brazilian, Colombian, and Paraguayan counterparts. The investigation led to the arrest of Luis Da Costa, head of the international multi-ton cocaine trafficking organization with close ties to the Revolutionary Armed Forces of Colombia (FARC) leadership. Da Costa was subsequently expelled to Brazil.

DEA **Paraguay**, in conjunction with the host nation counterparts, coordinated the follow-up investigation into the Luis Fernando Da Costa international drug trafficking organization. Leomar De Oliveira-Barbosa was identified as an associate of Da Costa and the lieutenant in charge of conducting drug and firearm trafficking in Paraguay. Barbosa had been arrested and sentenced to 14 years in a Brazilian prison in 1999. However, on February 21, 2001, Barbosa escaped and fled to Paraguay. During October 2001, he was apprehended and deported to Brazil to face drug, homicide, and escape charges. The **Madrid, Nicosia, and Ottawa** Country Offices, in conjunction with their counterparts, conducted a multilateral investigation into one of the most significant cocaine smuggling organizations in Europe. This year-long investigation resulted in seven arrests on a vessel carrying 4.5 tons of cocaine. Simultaneously, Spanish law enforcement arrested Jose Ramon PRADO-BUGALLO and five other associates. Spanish authorities believe that PRADO-BUGALLO is the most significant cocaine trafficker in Spain.

DEA in **Russia**, in coordination with Russian and Colombian authorities, concluded a successful delivery of 2.6 kilograms of cocaine from **Colombia** to Russia. This successful operation, followed by a second DEA-coordinated controlled delivery from Ecuador to Russia, led to the dismantling of a Russian-based polydrug trafficking organization. This organization was responsible for smuggling multi-kilogram quantities of cocaine from South America to Europe and Russia, and Southeast and Southwest Asian heroin from the Far East to Russia, Europe, and the United States. The leader and 12 criminal associates were arrested or detained in Russia and Belarus.

Collaboration between German and Dutch authorities and DEA **Germany** and The Hague led to the seizure of 1.6 million MDMA tablets and the arrest of three defendants. When intelligence information revealed that the tablets had been destined for Australia, the head of the organization, along with several other high-level officers, was arrested in Australia. It is believed that this group was responsible for the distribution of tens of millions of MDMA tablets worldwide. The investigation also included domestic DEA offices in New York, Houston, and Gainesville.

Arturo Paez-Martinez, a DEA fugitive and top lieutenant for the Arellano-Felix Organization, was flown to the United States after being surrendered to U.S. authorities in **Mexico**. He was arraigned in San Diego on a six-count federal indictment charging him with Operating a Continuing Criminal Enterprise, Money Laundering, and the Distribution of Narcotics.

Thai authorities arrested two significant drug traffickers in an operation based upon months of close coordination between the Office of the Narcotics Control Board, Royal Thai Armed Forces, the U.S. Intelligence Community, and DEA offices in **Thailand**. Approximately 125 kilograms of heroin and approximately 7.8 million methamphetamine tablets were seized, making this is the largest Thai seizure to date. DEA's Sensitive Investigative Unit Program played an integral role in the technical information gathering aspect of the operation.

DEA in **Argentina**, in conjunction with host nation counterparts and several domestic offices, conducted an investigation into an international heroin trafficking organization headed by Dina Gloria Dercan. The investigation yielded the arrest of 20 members of the organization, including Dercan and her Colombian source of supply as well as the seizure of 71 kilograms of heroin bound for the U.S. market.

Following a bilateral investigation involving the Government of **Mexico** and the DEA Merida Resident Office, authorities arrested Mario Villanueva Madrid, a fugitive who formerly served as the Governor of the State of Quintana Roo. He was charged for his significant involvement in the cocaine trafficking activities of Alcides Ramon Magana, a former member of the Amado Carrillo-Fuentes drug trafficking organization.

As a result of a bilateral investigation by Mexican authorities and the Mexico City Country Office, authorities arrested fugitive Alcides Ramon Magana. In recent years Magana has emerged as a significant trafficker heading his own cocaine trafficking organization.

DEA offices in **Hong Kong** and the **Philippines** coordinated efforts against major Southeast Asian crystal methamphetamine traffickers. Through bilateral investigative efforts, approximately 850 kilograms of crystal methamphetamine were seized in the Philippines.

The **Fiji** National Police, supported by DEA in **Australia** and **Singapore**, arrested DEA fugitive Philip Hastings. Hastings and 21 co-conspirators were indicted for their involvement in a conspiracy to import and distribute 18,000 lbs. of marijuana from Thailand to the United States. To date, 18 of the 21 conspirators are in custody. Hastings had been a fugitive since 1996.

DEA in **Islamabad** and Pakistani law enforcement officials raided a stash house and seized 96 kilograms of morphine base. The seizure was the result of intelligence gathered by the Islamabad Country Office on the movement of heroin from Afghanistan into Pakistan by a trafficking organization with connections to the Taliban regime.

DEA in **Bolivia** coordinated a joint initiative with counterparts to disrupt the flow of drugs/chemicals in the Chapare region. At the conclusion of the 41-day operation, more than 22 metric tons of precursor chemicals were seized and 31 individuals were arrested. Additionally, more than 222 cocaine base laboratories and 276 maceration pits were destroyed.

DEA in **Mexico, Panama, Bogota**, and Florida, assisted by other U.S. law enforcement agencies, undertook an initiative targeting Colombian cocaine traffickers utilizing maritime smuggling methods in the Eastern Pacific Ocean. Due to close coordination among the agencies, 80 tons of cocaine and 25 vessels were seized and 155 defendants were arrested.

The DEA offices in **Mexico, Belize, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica** and **Panama**, along with their host nation counterparts, participated in a five day intensive multinational drug enforcement effort along the Pan American Highway. This highway has served as the primary conduit for land-based trafficking headed for the United States. As a result of this operation, 6,754 vehicles were searched and 40 vehicles were seized; in addition, 130 kilograms of cocaine, 543 grams of heroin, and 14.5 tons of marijuana were confiscated. There were also 35 drug-related arrests.

Based on information provided by DEA in **Mexico** and Miami, 9,343 kilograms of cocaine were seized from a fishing vessel and 19 Mexican crewmembers were arrested.

DEA in the **Dominican Republic**, in coordination with Dominican authorities, seized 186 kilograms of cocaine and arrested two Dominican nationals. This was the result of an investigation into an international drug trafficking organization responsible for the distribution of multi-kilogram quantities of cocaine to the United States.

A total of 1,237 kilograms of cocaine were seized in Jamaica from a go-fast boat travelling from **Colombia**. This seizure was the result of a joint investigation between DEA Jamaica and Colombian law enforcement agencies.

DEA in **Greece**, in conjunction with Hellenic authorities, seized 25 kilograms of heroin and arrested one defendant. The seizure resulted from a joint investigation between Hellenic and Albanian authorities who were targeting a group of Albanian traffickers responsible for the delivery of multi-kilograms of cocaine and heroin throughout Western Europe.

The **Bern** Country Office, in conjunction with the Swiss Police, arrested the source of supply for an MDMA organization suspected of shipping over one million tablets to the United States.

### Intelligence Gathering

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

The **Lima** Country Office, in conjunction with host nation counterparts, has established a Riverine Interdiction Program. This program serves to target organizations using the Amazon fluvial rivers to transport drugs and/or precursor chemicals to Peru. Close coordination has produced significant results in stemming the flow of drugs and chemicals through the established river commercial traffic. The Riverine Program also serves as an intelligence collection initiative to support the Sensitive Investigative Unit.

The **Curacao** Country Office and the Korps Politie Suriname Vetted Unit have conducted several intelligence gathering operations targeting international narcotic trafficking organizations operating in Suriname. Intelligence from these operations led to numerous arrests and the seizure of a total of 775 kilograms of cocaine from two separate operations. Additionally, the operations have provided investigative leads to several DEA foreign and domestic offices.

The **Bogota** Country Office, in conjunction with Colombian authorities and DEA domestic offices, culminated an 11-month operation that focused on the money laundering activities of a Colombian national. The success of this operation was due largely to the sharing of intelligence between Colombian and U.S. authorities. The Colombian phase of this operation resulted in the arrest of eight principal targets and the seizure of numerous documents related to money laundering.

The **Buenos Aires** Country Office and host nation counterparts have been gathering intelligence to combat the dramatic increase of heroin trafficking cells based in Argentina. As a result of intelligence provided by DEA in Bogota, investigations have resulted in the identification of cell heads and couriers, as well as the arrest of 20 people and the seizure of over 32 kilograms of heroin.

The **Brasilia** Country Office has been instrumental in assisting Brazilian counterparts in establishing a regional intelligence fusion center in Brazil. This center was established to enhance communication between countries in the Southern Cone region and to assist them in coordinating drug-related investigations. The center is staffed by representatives of neighboring countries, including Peru and Colombia.

The acquisition and submission of authentic narcotics samples to DEA's Special Testing and Research Laboratory (STRL) is an ongoing initiative in **Southeast Asia**. Heroin, methamphetamine, marijuana, and other dangerous drug samples are routinely acquired and submitted to the STRL. For the first time, narcotics samples were provided to DEA by host nation counterparts in the **Peoples Republic of China** and **Vietnam**.

Based on intelligence provided by DEA, Australian authorities seized approximately 1,000 kilograms of cocaine. This was the largest cocaine seizure in **Australia** to date.

Due to intelligence leads and an intensive three-month training course on container inspections by the Islamabad Country Office, Pakistani law enforcement officials seized 113 kilograms of heroin from 266 paint cans in a container shipment.

Based on intelligence provided by DEA in **Turkey**, the Turkish National Police seized 103 kilograms of heroin and arrested ten Turkish/Iranian nationals. The Iranian source of supply was one of the arrested defendants.

Intelligence was provided by DEA in Paris about a vessel suspected of smuggling cocaine from Venezuela to Spain. This intelligence led to the seizure of 450 kilograms of cocaine.

Based on the sharing of information, DEA in **Nicaragua** arranged for lookouts on two suspect vessels. Search of one vessel uncovered 8 metric tons of cocaine; 13 metric tons of cocaine, concealed in a diesel fuel tank, were discovered in the other vessel. Twenty members of both crews, including the captains, were arrested.

## Coordinate Training Programs for Host Country Police Agencies

DEA's international training activities are conducted in coordination with DEA's foreign office, U.S. Missions, and the Department of State, Bureau for International Narcotics and Law Enforcement Affairs. The full range of the international antinarcotics training program is addressed in the International Training Section.

## Institution Building and Foreign Liaisons

DEA Agents establish close relationships and networks with their counterparts that foster cooperation in international drug law enforcement. DEA Agents meet with their counterparts to discuss policy and legislative issues and provide assistance in developing drug control laws and regulations. DEA also provides training and material support to foreign law enforcement partners to help them combat major drug trafficking organizations and the production and transportation of illicit drugs. The activities described below are representative of DEA's efforts in foreign liaison and institution building activities.

In April 2001, DEA sponsored the 19th annual International Drug Enforcement Conference (IDEC). At the conference, senior drug law enforcement officials from 32 member countries throughout the Western Hemisphere and observers from Europe, Asia, and Australia met to discuss and exchange insights on counternarcotics enforcement activities. Presenters described their counternarcotics 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 provided a forum for the delegates to exchange information and build personal relationships that are key to enhancing closer coordination among law enforcement agencies.

DEA Country Offices in **Colombia, Venezuela, Peru, Bolivia, Brazil, Chile, Ecuador, and Argentina** played a leadership role in supporting two regional operations. One operation targeted trafficking organizations in South America that transport heroin to the United States. The other operation targeted illicit precursor and essential chemical trafficking throughout South America. Although both operations have yielded very high statistical results, the operations best serve to foster and enhance relations between and amongst the South American countries. By initiating and supporting these programs, DEA promotes positive working relationships among the participating countries.

The **Nicosia** Country Office and Special Agents from the New York Field Division participated with the Israeli National Police in executing the arrests without incident of three Israeli nationals in **Tel Aviv**. This is the first time a mutual legal assistance treaty involving the United States and Israel has allowed for the search of the defendants' property and the questioning of the defendants in accordance with U.S. laws. In addition, representatives from DEA were allowed to participate in the proceedings. The three were charged with conspiracy to distribute more than one million MDMA tablets in the United States.

The **Panama** Country Office continued its airport interdiction program, which includes DEA and three Panamanian national law enforcement agencies. The program targets airport passengers transiting from Colombia to Panama with onward destinations worldwide. Since October 1, 2000, the operation has been responsible for the seizure of 141 kilograms of heroin, 245 kilograms of cocaine, and the arrest of 110 traffickers.

DEA **Bolivia** has worked extensively with host nation counterparts to train police officers, prosecutors, and judges in implementing the new Bolivian counternarcotics legislation. Bolivian Law 1008 contains strict guidelines for both law enforcement and judicial officials, including trials by jury and provisions for police officers to work undercover.

DEA offices in **Thailand** are playing an integral role in a U.S. Embassy Bangkok, Thailand initiative to provide expertise in the development of a Thai military and law enforcement task force to combat the security threat posed by drug trafficking organizations operating along the Thai/Burma border. DEA has

provided operational support, promoted intelligence fusion and sharing, and provided training and organizational support in the creation of the task force. Additionally, DEA has identified necessary legal tools for police and judges to use in combating sophisticated drug trafficking organizations.

DEA has supported the development of an intelligence center network, provided expertise in the establishment of the Anti-Money Laundering Office, and sponsored the Sensitive Investigative Unit Program in **Thailand**. The success of these initiatives has resulted in the seizure of approximately \$24 million USD.

DEA in **Hong Kong** hosted a “Far East Regional Precursor Chemical Conference.” Representatives from Hong Kong, the **Peoples Republic of China, Thailand, Burma, Australia, Japan, Laos, Korea, Philippines, Malaysia, and Vietnam** attended. The primary goal of the conference was to develop a tracking initiative within the Far East Region that would concentrate on precursor chemicals used in the production of amphetamine-type stimulants. All participants agreed on an initiative to track ephedrine, which is the primary precursor in the production of methamphetamine.

### DEA Summary of International Asset Forfeiture Sharing

(FY01)

DEA Case Number and Location	Total Amount Forfeited in the U.S.	Recipient Country	Amount of Transfer	Transfer Date
<b>RL-98-0492</b> <b>RL-98-0009</b> <b>RL-98-0045</b> Western Washington and Central California	\$248,190 <sup>1</sup>	Canada	\$89,129.62 <sup>2</sup>	3/15/01
<b>M9-96-0060</b> Southern Texas	Aircraft valued at \$200,000	Costa Rica	Aircraft	4/01
<b>R2-91-0113</b> Southern California	\$393,892	Cayman Islands	\$146,874.34	5/11/01
<b>G1-95-0345</b> Southern Florida	3 aircraft valued at \$1,911,110	Dominican Republic	\$1,139,399.77	4/2/01

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<sup>1</sup> Total of all three cases.

<sup>2</sup> \$12,500 transferred 6/99.



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# United States Coast Guard

## Overview

The Coast Guard's multiyear campaign plan to combat the dynamic maritime drug trafficking threat **Campaign Steel Web** – is currently being revised to reflect changes in drug trafficking trends.

**Strategic Goals.** **Steel Web 2002** is fully aligned with Goal 4 (Shield America's air, land and sea frontiers from the drug threat) and Goal 5 (Break foreign and domestic drug sources of supply) of the National Drug Control Strategy (NDCS), and complements the contributions of our law enforcement (Customs, DEA, local LEAs) and DoD partners in this effort.

**Strategic Framework.** Three pillars form the foundation of Steel Web 2002 for operations planning, cooperative efforts and regional engagement activities to combat drug smuggling in the transit and arrival zones:

- Denial of maritime drug smuggling routes by developing a dynamic interdiction presence in the transit and arrival zones, and applying intelligence information to focus limited resources on maximizing the rate of removal of cocaine being smuggled via three major smuggling vectors: Eastern Caribbean, Western Caribbean, and Eastern Pacific.
- Strengthening ties with source and transit zone nations to increase their capabilities in maritime law enforcement, reduce drug-related activities and enhance legitimate commerce within their territorial limits.
- Support of interagency efforts to combat drug smuggling through coordination operations planning and execution.

The key to success of Steel Web 2002 is adherence to the concept of centralized planning and decentralized execution. Pursuit of international engagement opportunities is also necessary and will be coordinated by the Coast Guard International Affairs department. Partnering with law enforcement officials of other nations helps develop indigenous interdiction forces, and enhances the cumulative impact of interdiction efforts directed at drug traffickers in the region.

## Combined Operations

The Coast Guard conducted Operation **Caribe Venture**, operation **Rip Tide**, and Operation **Seguridad** during 2001.

Operation **Caribe Venture**: International effort to deny smugglers the use of maritime routes along the islands of the eastern Caribbean. The U.S., France, Netherlands, United Kingdom, Trinidad and Tobago, Grenada, Barbados, St. Vincent and the Grenadines, St. Lucia, Dominica, St. Kitts and Nevis, Dominican Republic and Antigua/Barbuda participate. During 2001, The second of two scheduled operations was cancelled due to the terrorist attacks and the resultant focus on maritime homeland security. Operation

**Rip Tide**: A combined U.S./Jamaica/Grand Caymans (UK) effort to deny smugglers the use of maritime smuggling routes into Jamaica and the Cayman Islands. **Rip Tide** is coordinated by the 7th Coast Guard District in Miami and was conducted twice in 2001.

The Coast Guard also participates in several JIATF East and JIAFT West combined operations in Central America. During 2001 Coast Guard assets took part in Operation **Mayan Jaguar** (U.S./Guatemala) and Operation **Chokehold** (U.S./Costa Rica).

Operation Bahamas, Turks and Caicos (OPBAT): A Memorandum of Understanding with the UK, the Bahamas and Turks and Caicos to combat trafficking in the Turks and Caicos and the Bahamas. USCG

contributes aircraft and aircrew on a steady-state basis. Also referred to as the TRIPART agreement, the U.S. is a signatory to the MOU, signed in JUL 90. USCG does not provide law enforcement personnel to OPBAT. Law enforcement is carried out by Tripart Team Members (TTMs), who are either Bahamian or Turks and Caicos law enforcement authorities. The DEA provides LE officers, but they operate only to assist the TTMs and do not have law enforcement jurisdiction. In 2001 OPBAT forces, with Coast Guard support, Seized 6,026 pounds of cocaine, 24,159 pounds of marijuana, arrested 105 persons and seized 24 vessels.

### **U.S./Mexico Interdiction Working Group**

The U.S./Mexico Interdiction Working Group (IWG) grew from the bilateral cooperation experienced during maritime interdictions in 1999 and is based on a November 1999 Mexican proposal accepted by HLCG. USIC leads the U.S. side of JIATF-East, JIATF-West, Customs, CGD8, CGD11, DEA and the U.S. Embassy Narcotics Affairs Section. Mexican representation includes FEADS (DEA equivalent), CENDRO-6 (national counterdrug unit), SRE (foreign ministry), PFP (Federal Preventative Police), DEFENSA (Army), MARINA (Navy) and SCT (Captain of the Port/Merchant Marine). The IWG has significantly enhanced CD cooperation efforts by facilitating initiatives such as the U.S./MEX Communications Plan for use in law enforcement interdiction operations and Post Seizure Analysis Training/Exercise with the MEXNAV and the FEADS. IWG efforts have also led to coincidental operations with the Coast Guard and the Mexican Navy in the Gulf of Mexico and in the Eastern Pacific to assist the MEXNAV in their counterdrug efforts. In 2001, the Coast Guard provided direct support to MEXNAV in 4 cases resulting in the seizure of 23,096 pounds of cocaine. Among the most significant of these seizures were the F/V Tolteca I with 8,529 pounds, and two go-fasts totaling 10,719 pounds.

### **Interaction with Colombia**

In 2001, the Coast Guard continued to enjoy exceptional cooperation from the Government of Colombia in maritime interdiction resulting in the seizure of over 29,000 pounds of cocaine. The U.S.-Colombian Ship boarding Agreement allows the U.S. to exercise jurisdiction over CO flagged vessels located outside the CO EEZ, if the U.S. has initiated an ongoing investigation. The Colombians have authorized all 90 request for USCG boardings of Colombian flagged vessels since October 2000. Successful cocaine seizures as a result of the agreement include F/V RECUERDO (17,177 lbs), and four go-fast vessels (12,045).

# USCG Technical Assistance

FY01 (Completed)

Country	Course Title	Start Date	Finish Date	Funding Source
Albania	Disaster Preparedness Assessment	15 Sep 00	28 Sep 00	DOD
Albania	Patrol Planners Mobile Training Team	7 May 01	12 May 01	IMET
Antigua	Operational Information Management Mobile Training Team	23 Oct 00	3 Nov 00	Embassy
Antigua	Operational Information Management Mobile Training Team	24 Jun 01	7 Jul 01	Embassy
Antigua (RSSTU)	Maritime Commerce Control, Infrastructure Development Mobile Training Team	01 Oct 00	30 Sep 01	INL
Azerbaijan	Port Security/ Port Vulnerability Mobile Training Team	21 Oct 00	28 Oct 00	DOS
Azerbaijan	Small Boat Operations Mobile Training Team	11 Jun 01	22 Jun 01	DOS
Azerbaijan	Small Boat Operations Mobile Training Team	20 Jul 01	04 Aug 01	DOS
Bahamas	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer and Interdiction Planning Mobile Training Team	8 Jan 01	26 Jan 01	IMET
Bahrain	Assessment Team	26 Apr 01	2 May 01	TCA
Bermuda	Assessment Team	10 Sep 01	14 Sep 01	DOD
Bolivia	Maritime Commerce Control, Infrastructure Development Mobile Training Team	01 Oct 00	30 Sep 01	Embassy
Bulgaria	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	18 Oct 00	6 Nov 01	INL
Bulgaria	Maritime Command and Control Subject Matter Expert Exchange	23 Apr 01	28 Apr 01	JCTP
Colombia	Advanced Port Security/ Port Vulnerability Mobile training team	29 Jan 01	9 Feb 01	FMS
Colombia	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	22 Apr 01	5 May 01	INL
Costa Rica	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	19 Feb 01	2 Mar 01	INL
Costa Rica	Operational Training Program Development Mobile Training Team	4 Dec 00	8 Dec 00	IMET
Costa Rica	Maritime Commerce Control, Infrastructure Development Mobile Training Team	1 May 01	7 Dec 01	IMET
Croatia	Maritime Traffic Control Team	5 Mar 01	9 Mar 01	JCTP
Ecuador	Counter Drug Training Support Mission	24 Sep 01	6 Oct 01	DOD
Ecuador	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	24 Jun 01	6 Jul 01	IMET
El Salvador	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	8 Jan 01	19 Jan 01	IMET
Georgia	Maritime Commerce Control, Infrastructure Development Mobile Training Team	01 Oct 00	30 Sep 01	USCS
Georgia	Engineering and Logistics Mobile Training Team	3 Dec 00	13 Dec 00	USCS
Greece	MLE – Hidden Compartments Course Mobile Training Team	19 Mar 01	29 Mar 01	DEA

## *USCG Technical Assistance (Cont.)*

### FY01 (Completed)

Country	Course Title	Start Date	Finish Date	Funding Source
Greece	MLE - High Risk Boardings Mobile Training Team	2 Apr 01	6 Apr 01	Direct
Guyana	Small Boat Operations Mobile Training Team	20 Aug 01	31 Aug 01	
Haiti	Maritime Commerce Control, Infrastructure Development Mobile Training Team	01 Oct 00	3 Dec 00	IMET
Iceland	MLE Seminar with exercise evaluation	12 Jun 01	23 Jun 01	TCA
Jamaica	Maritime Law Enforcement Mobile Training Team	14 May 01	25 May 01	IMET
Kenya	Port Security/ Port Vulnerability Mobile training team	19 Mar 01	23 Mar 01	TCA
Kuwait	Assessment	21 Apr 01	24 Apr 01	TCA
Kuwait	Maritime Smuggling Interception Subject Matter Expert Exchange	3 Feb 01	5 Feb 01	TCA
Latvia	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	13 May 01	19 May 01	DOS
Latvia	Model Maritime Service Code	1 Apr 01	4 Apr 01	INL
Lebanon	Model Maritime Service Code	9 Apr 01	13 Apr 01	INL
Madagascar	Port Security/ Port Vulnerability Mobile training team	7 Feb 01	21 Feb 01	TCA
Malta	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	24 Sep 01	3 Oct 01	IMET
Mexico	IONSCAN – Crime Scene Management Mobile Training Team	5 Nov 00	11 Nov 00	INL
Mexico	IONSCAN – Legal Aspects Mobile Training Team	18 Feb 01	24 Feb 01	INL
Mexico	IONSCAN – Mobile Training Team	17 Sep 01	5 Oct 01	INL
Mexico	IONSCAN – Mobile Training Team	19 Mar 01	23 Mar 01	INL
Mexico	Port Security/ Port Vulnerability Mobile training team	15 Apr 01	21 Apr 01	INL
Netherland Antilles	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	19 Mar 01	24 Mar 01	FMS
Netherland Antilles	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	26 Mar 01	30 Mar 01	FMS
Nicaragua	MLE Interdiction Planning, Advanced Counter Narcotics Law Enforcement Boarding Officer Mobile Training Team	7 May 01	26 May 01	IMET
Pakistan	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	10 Mar 01	23 Mar 01	INL
Panama	Maritime Commerce Control, Infrastructure Development Mobile Training Team	01 Oct 00	30 Sep 01	INL
Peru	Port Security Subject Matter Expert Exchange	27 Nov 00	1 Dec 00	TCA
Peru	Maritime Commerce Control, Infrastructure Development Mobile Training Team	01 Oct 00	30 Sep 01	INL

## *USCG Technical Assistance (Cont.)*

### **FY01 (Completed)**

<b>Country</b>	<b>Course Title</b>	<b>Start Date</b>	<b>Finish Date</b>	<b>Funding Source</b>
Portugal	Pre-Training Survey Team	10 Mar 01	17 Mar 01	IMET
Portugal	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	9 Jul 01	19 Jul 01	IMET
Qatar	Port Security/ Port Vulnerability Mobile training team	31 Mar 01	4 Apr 01	TCA
Uruguay	Pre-Training Survey	1 Apr 01	7 Apr 01	IMET
Uruguay	Incident Command System Mobile Training Team	16 Jul 01	20 Jul 01	IMET
Uruguay	Small Boat Maintenance Subject Matter Expert Exchange	24 Jun 01	30 Jun 01	TCA
Venezuela	Assessment	10 Feb 01	16 Feb 01	TCA
Zambia	Pre-Training Survey	15 Jul 01	21 Jul 01	IMET

# USCG Technical Assistance

## FY02 (Proposed)

Country	Course Title	Funding
Albania	Maritime Law Enforcement Interdiction Techniques Seminar	JCTP
Antigua and Barbuda	Maritime Commerce Control, Infrastructure Development Mobile Training Team	INL
Aruba	Instructor Course, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	FMS
Bahamas	Counternarcotics Maritime Law Enforcement Mobile Training Team	IMET
Bahamas	Counternarcotics Maritime Law Enforcement, Instructor Course, Mobile Training Team	IMET
Belize	Counternarcotics Maritime Law Enforcement Mobile Training Team	IMET
Benin	Advanced Outboard Motor Maintenance Mobile Training Team	Embassy
Bolivia	Maritime Commerce Control, Infrastructure Development Mobile Training Team	
China	Assessment	INL
China	Port Physical Security / Port Vulnerability Assessment Basic Mobile Training Team	INL
China	Small Boat Operations Mobile Training Team	INL
Colombia	Joint Boarding Officer Course, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	IMET
Costa Rica	Engineering Mobile Training Team	INL
Costa Rica	Smallboat Operations Mobile Training Team	INL
Costa Rica	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	INL
Costa Rica	Small Boat Operational Training Program Development Mobile Training Team	IMET
Costa Rica	Maritime Commerce Control, Infrastructure Development Mobile Training Team	INL
Djibouti	Assessment	TCA
Curacao	Instructor Course, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	FMS
Ecuador	Assessment	TCA
Ecuador	Boarding Officer, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	FMS
El Salvador	Boarding Officer, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	IMET
El Salvador	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	IMET
El Salvador	Joint Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	IMET
Eritrea	Assessment	TCA

# *USCG Technical Assistance (Cont.)*

FY02 (Proposed)

<b>Country</b>	<b>Course Title</b>	<b>Funding</b>
Gabon	Assessment	DOS
Georgia	Engineering/Logistics Administration Mobile Training Team	DOS
Georgia	Hull Maintenance & Damage Control Mobile Training Team	DOS
Georgia	Maritime Commerce Control, Infrastructure Development Mobile Training Team	DOS
Ghana	Pre-Training Survey	IMET
Ghana	Fisheries & Counternarcotics Boarding Officer, Maritime Law Enforcement Mobile Training Team	IMET
Honduras	Smallboat Assessment	TCA
Honduras	Smallboat Operations Mobile Training Team	INL
Jamaica	Boarding Officer, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	IMET
Jamaica	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	IMET
Japan	Boarding Officer, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	Direct
Jordan	Engineering Mobile Training Team	IMET
Jordan	Port Security & Vulnerability Mobile Training Team	IMET
Kenya	Crisis Command & Control Mobile Training Team	IMET
Lebanon	Model Maritime Service Code Phase 3	INL
Lebanon	Port Security & Vulnerability Mobile Training Team	IMET
Lebanon	Model Maritime Service Code Phase 3 – Development	INL
Lebanon	Advanced Boarding Officer, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	IMET
Lebanon	Marine Safety and Environmental Security Seminar	IMET
Lithuania	Crisis Command & Control Mobile Training Team	IMET
Lithuania	International Maritime Law Subject Matter Expert Exchange	JCTP
Malawi	Assessment	IMET
Malta	Maritime Commerce Control, Infrastructure Development Mobile Training Team	IMET
Malta	Port Security & Vulnerability Mobile Training Team	IMET
Mauritania	MLE Pre Training Survey	IMET
Mauritius	East Africa Regional Fisheries Seminar	DOS
Mexico	Boarding Officer, Advanced, Counternarcotics Maritime Law Enforcement Mobile Training Team	DOD

## *USCG Technical Assistance (Cont.)*

FY02 (Proposed)

<b>Country</b>	<b>Course Title</b>	<b>Funding</b>
Mexico	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	DOD
Mexico	Riverine Small boat Operations Mobile Training Team	DOD
Nicaragua	Assessment	DOD
Nicaragua	Boarding Officer, Advanced, Counternarcotics Maritime Law Enforcement Mobile Training Team	IMET
Nicaragua	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	IMET
Oman	Port Security & Vulnerability Mobile Training Team	TCA
Pakistan	Port Security & Vulnerability Mobile Training Team	INL
Pakistan	Small boat Operations Mobile Training Team	INL
Panama	Joint Counternarcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	INL
Panama	Maritime Commerce Control, Infrastructure Development Mobile Training Team	Embassy
Panama	Small Boat Operations Mobile Training Team	INL
Peru	Maritime Commerce Control, Infrastructure Development Mobile Training Team	DOS
Portugal	Boarding Officer, Advanced, Counternarcotics Maritime Law Enforcement Mobile Training Team	IMET
Russia	Instructors Course, MLE CG-03	INL
Russia	Miscellaneous Mobile Training Team Out-CONUS	IMET
Samoa	Leadership and Management	IMET
Sao Tome	Pre-Training Survey	
Sierra Leone	Pre-Training Survey	
Solomon Islands	Leadership and Management	IMET
Thailand	Assessment	DOD
Tunisia	Boarding Officer, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	IMET
Uzbekistan	Boarding Officer, Advanced, Counternarcotics Maritime Law Enforcement Mobile Training Team	INL
Uzbekistan	Boarding Officer, Counter-Narcotics Maritime Law Enforcement Mobile Training Team	INL
Yemen	Maritime Commerce Control, Infrastructure Development – CG Advisor	FMS
Yemen (Sanaa)	Maritime Commerce Control, Infrastructure Development Mobile Training Team	FMS



## United States Customs Service

The United States Customs Service processes all goods and merchandise imported into and exported from the United States. Inspectors, mail examiners and canine officers are tasked with intercepting contraband, illicit goods and unreported currency as it crosses our borders. Interdiction efforts are conducted with a minimum disruption of legitimate trade, by utilizing techniques of selectivity and targeting to identify high risk shipments for more intensive examination. Seizure statistics indicate that the U.S. Customs Service is among the most successful border control agencies in the world, and its officers operate with a high level of independence, efficiency and integrity. On the average day, U.S. Customs examines 1.3 million arriving passengers, 410,000 arriving conveyances, effects seizures of \$500,000 in currency and 2 tons of narcotics, arrests 65 fugitives or violators, while conducting the business of processing incoming commercial merchandise. The State Department Bureau for International Narcotics and Law Enforcement Affairs and the U.S. Customs Service promote international cooperation through an interagency agreement that provides funding for training and assistance programs throughout the world. The agreement enables the U.S. Customs Service to offer tools and technologies for combating transnational crime to border agencies in other countries, to the benefit of international law enforcement.

### International Training and Assistance

U.S. Customs conducted a number of programs in response to emerging priorities during 2001:

- U.S. Customs provided technical training and assistance in support of the International Law Enforcement Academy (ILEA) programs currently operating in Bangkok, Budapest and Gaborone. The mission of the ILEA is to promote social, political and economic stability by combating crime. To achieve this goal, ILEA provides high-quality training and technical assistance, supports institution building and enforcement capability and fosters improved relationships between American law enforcement agencies and their counterparts in the region. ILEA also encourages strong partnerships among regional countries, to address common problems associated with criminal activity. U.S. Customs has developed and conducted specialized training 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. Customs provided assistance for 14 ILEA programs.
- U.S. Customs incorporated hazardous materials training for narcotics programs in Mexico and Kyrgyzstan. The hazardous materials training targeted the border control environment. International placarding, labeling and documentation standards are taught with emphasis on safety procedures for inspecting cargo shipments. Standards applying to the transport precursor chemicals, narcotics substances and radiological materials were addressed.
- 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. In support of Plan Colombia, U.S. Customs will provide training and assistance focusing on integrity, border interdiction, trade fraud, intelligence collection, industry partnership programs, and financial crimes issues in Colombia. In addition, an Andean Regional Initiative has been developed to counter the effects of Plan Colombia in the Andean Region. Program initiatives were planned and scheduled during FY2001 that will be delivered during FY2002.

- The Safe Skies for Africa Initiative promotes sustainable improvements in aviation safety and security in Africa and creates the environment that fosters the growth of aviation services between Africa and the US. 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 surveys the aviation needs of the selected countries and assists them in developing work plans to improve and enhance their aviation infrastructure. These countries then work with international organizations and the private sector to implement the plans. U.S. survey teams, including one U.S. Customs Inspector, visited Angola.
- A U.S. Customs canine officer traveled to Colombia during March 2001 to conduct a Post-funded canine program assessment. Hurricane Mitch Supplemental funding allowed 6 Honduran canine officers to participate in canine training programs at the Canine Training Center located in Front Royal, Virginia.
- Post-funded Short-Term Advisory projects were conducted in Panama, Ecuador, El Salvador, Mexico, Qatar, China, and Israel.

### Industry Partnership Programs

Currently, the U.S. Customs Service has three active Industry Partnership Programs (IPP) that are designed to deter and prevent narcotics from being smuggled into the United States via commercial cargo and conveyances, and to enlist the trade's support in narcotics interdiction-related activities, both domestically and abroad. The programs are:

- The Carrier Initiative Program (CIP), established in 1984, is a joint effort among air, sea, and land, railroad carriers and U.S. Customs. There are over 4,100 carriers currently participating in the CIP. The program encourages the carriers to improve their security practices in striving to prevent narcotics from getting onboard their conveyances.
- The Business Anti-Smuggling Coalition (BASC), initiated in March 1996, BASC is a business-led, Customs-supported alliance created to combat narcotics smuggling via commercial trade. BASC was designed to complement and enhance the CIP program. The idea behind BASC is to examine the entire process of manufacturing and shipping merchandise from foreign countries to the United States. The program also heightens business awareness about narcotics smuggling in the import and export communities.
- The Americas Counter Smuggling Initiative (ACSI) is a priority undertaking, established by Customs, to build upon the success of the CIP and BASC by strengthening and expanding our anti-narcotics security programs with industry and government throughout Central and South America. Since January 1998, Customs has detailed officers to assist businesses and government in developing security programs and initiatives that safeguard legitimate shipments from being used to smuggle narcotics. Target countries include Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, and Venezuela.

### Current Status

In FY 2001, participants in these Industry Partnership Programs provided information to U.S. Customs, which has resulted in 70 domestic seizures totaling 17,560 pounds of narcotics and assisted in 173 foreign intercepts of 28,680 pounds of narcotics destined for the United States from abroad.

From FY95 – FY01 participants in these programs have provided information to Customs, which has resulted in domestic seizures totaling over 108,560 pounds of narcotics.

During the same period, (FY95 – FY01) program participants helped intercept over 241,240 pounds of narcotics destined for the United States from abroad.

Through the BASC program, Customs is working with the business community throughout the United States, to include the locations of Otay Mesa, Ca.; Nogales, Az.; El Paso, Tx.; Laredo, Tx.; McAllen, Tx.; and Miami, Florida.

There are currently U.S. BASC chapters in Miami, Florida and McAllen, Texas

BASC Chapters have been established by the private sector in Colombia, Costa Rica, Ecuador, Peru, Venezuela, Panama and Mexico.

BASC has been promoted to the World Customs Organization (WCO) and is included into the “WCO Business Partnership” program. This provides a means by which Customs administrations can work together with trade associations to combat the international trade of illicit drugs.

(Note: On November 2, 1999, the President of the International Chamber of Commerce sent a letter to the Secretary General of the WCO expressing support of BASC as an effective approach to deter drug smuggling in legitimate commercial trade.)

The Customs Service, in conjunction with our support of Plan Colombia, supported the First Worldwide BASC Conference that was held in Cartagena, Colombia in May 2001.

### Customs Mutual Assistance Agreements

CMAA negotiations are currently on-going with the Governments of Brazil, Chile, India, Kuwait and Paraguay. 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.

### Shared Financial Assets

In FY 2001, U.S. Customs shared financial assets with three countries:

Cayman Islands	\$14,324
Netherlands	\$144,220
Canada	\$210,256
<b>Total</b>	<b>\$368,800</b>

### Training in the U.S.

**International Visitors Program.** Visiting foreign officials consult with appropriate high level managers in US Customs Headquarters, and conduct on-site observational tours of selected ports and field operations. The focus includes narcotics enforcement policies, port security issues, counterterrorism programs and intelligence operations. The IVP was delivered to 850 participants for 257 programs to benefit 124 countries.

## Training in Host Countries

**Overseas Enforcement Training.** Program combines formal classroom training and field exercises for border control personnel. The curriculum includes narcotics interdiction, identifying falsified travel documents, targeting, search techniques, WMD and hazardous materials identification in the border environment. Program was delivered to 166 participants in 7 countries.

**Train-the-Trainer Workshop.** The Train-The-Trainer Workshop is a program oriented to prepare a nucleus of instructors who can teach border control interdiction techniques as part of a formal classroom training program. Institutionalizes training methodology and prepares a cadre of trainers for the host governments. Program was delivered to 24 participants in 2 countries.

**Short Term Advisory.** Commits an on-site US Customs expert to assist the host government agencies with selected projects of institution building and improved interdiction capabilities. These may focus on specific narcotics threats, port security, counterproliferation of WMD. Advisors are also fielded for strategic planning, commercial processing, investigations, automation and border/trade facilitation. In FY2001 35 short term advisors were fielded to 7 countries.

**Contraband Enforcement Team.** Course assists host agency to develop and operate a mobile Contraband Enforcement Team. It is offered as a 3-phase program: an observational tour to the US for 4 prospective supervisors; in-country formal training for the prospective team members; and a US short-term advisor who remains for 1-2 weeks following the in-country training. Program was delivered to 72 participants in 3 countries.

**Passenger Enforcement Rover Training.** Rovers are plain-clothes Customs inspectors who mingle with arriving passengers to identify irregularities. The goal is to develop interdiction skills for falsified documents, high-risk passengers, and interdiction of narcotics, WMD and other contraband in the airport environment. The PERT program was delivered to 24 participants in 1 country.

**Passenger Interview and Vehicle Inspection Training.** This course is specialized for the risks at the land border environment. The course combines classroom training and field exercise. It offers training in interview strategies, counterfeit travel documents, targeting for narcotics/WMD/ contraband, search techniques, port security, and safety practices for hazardous materials. PIVIT was delivered to 48 participants in 2 countries.

**Integrity/Anti-Corruption.** Course is designed to promote professionalism and integrity within the workforce of agencies particularly vulnerable to bribery and corruption. Focus is on integrity awareness training and development of internal investigation organizations. Course was delivered to 264 participants in 11 countries.

**Canine Training (U.S. Based).** Designed to assist countries that export significant amounts of narcotics to the US to initiate and maintain a viable detector dog program. Canine training was delivered to 38 participants from 2 countries.

## Looking Ahead

The country of Afghanistan is once again emerging as a primary supplier of the world's heroin. A Carnegie Endowment paper written in March 2000 asserts that Osama bin-Laden "finances his terrorist activities with profits from his opium syndicate that he operates from western Afghanistan." The link between the corrupting influences of narcotic trafficking and the devastation of terrorist activities cannot be denied. The illicit proceeds of transnational narcotics enterprises finance a range of criminal and terrorist objectives; the disproportionate profits overshadow legitimate trade and economic development at all levels of society. The US Customs Service has powerful technological and law enforcement resources to share with countries working to combat narcotics trafficking. Computer capability, financial investigations, and border interdiction skills are offered in a spirit of international cooperation by the US Customs

Service. The objectives are the same worldwide: to disrupt and defeat narco-terrorism where ever it appears on the map.



# **SOUTH AMERICA**





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# Argentina

## I. Summary

Argentina is not a major drug producing country, but it remains a transit country 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 has become a transit area for Colombian heroin en route to the U.S. east coast (primarily New York), although there is no evidence that the quantities involved significantly affect the U.S. According to Argentine government (GOA) statistics, domestic drug use continues on the upswing. Although the overall number of people arrested for possession and trafficking declined in 2001, the number of seizures increased. This is indicative of a more focused use of investigative resources by the GOA, where trafficking organizations are being targeted instead of individual violators. Still, the smuggling of coca leaf into Argentina from Bolivia remains a problem, with over 85 metric tons of coca leaf seized by Argentine authorities in 2001.

While cognizant of its responsibilities in the interdiction area, the Argentine government continues to focus its counternarcotics efforts on demand reduction. Federal counternarcotics policy is coordinated by the Secretariat for the Prevention of Drug Addiction and Narcotics Trafficking (SEDRONAR). The government has several national security forces involved in counternarcotics efforts, with the Gendarmaria Nacional (Border Patrol), and Prefectura Naval (Coast Guard) playing the most prominent and effective roles. Provincial police forces also play an integral part in counternarcotics operations. During 2001, the GOA focused on improving its money laundering regulations. GOA efforts on money laundering and other counternarcotics law enforcement efforts are consistent with Argentina's obligations as a party to the 1988 UN Drug Convention.

## II. Status of Country

Argentina is not a major drug producing country. According to the first national survey on drug use, released in June 1999, 2.9 percent of adults between the ages of 16 and 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. Illicit drug cultivation is negligible. There is very limited refining or manufacturing of illicit drugs, with small amounts being produced in the country for local consumption. Most Argentine officials agree that the trafficking of narcotics through Argentina is a problem, although it has remained difficult to quantify the flow with any degree of accuracy. Argentina has a large and well-developed chemical industry which manufactures almost all the precursors necessary for the processing of cocaine. Buenos Aires also has a sophisticated financial sector, which could be used for money laundering operations.

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 significantly. Seizures of psychopharmaceuticals, such as MDMA (ecstasy), continue to occur. Amphetamine seizures are increasing as well.

Commercial aircraft, private and commercial vehicles, containerized rail cargo, and foot traffic all serve as means of entry of drugs into Argentina. The thousands of uncontrolled airfields and small municipal airports, combined with the continuing lack of national radar coverage are factors which 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. Narcotics entering and exiting via Argentine maritime ports are carried in bulk and containerized cargo, and in some cases, by passengers.

As a member of MERCOSUR, Argentina cannot open and inspect sealed containers from another member state which are passing through the country in transit. These sealed and uninspected containers could be used to transport an unknown quantity of drugs.

### III. Country Actions Against Drugs in 2001

The government actively opposes drug trafficking and the sale and use of illegal narcotics within the country. Argentina is party to the 1988 UN Drug Convention. In 1989, the Argentine congress passed the laws necessary to bring the 1988 UN Drug 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.

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 UNDCP. In 2001, Argentina continued to urge MERCOSUR to play a larger role in money laundering and chemical precursor diversion investigations. The GOA hosted the IDEC in 2000 and played an active role in IDEC 2001.

**Domestic Programs (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 federal government-subsidized treatment. Buenos Aires province (the most heavily populated) has its own well-established demand reduction program which coincides with the province probably hosting the most drug users.

**Law Enforcement Efforts.** Argentina has many federal and provincial police forces involved in the counternarcotics effort. The primary federal forces involved are the Federal Police (who also have jurisdiction for crimes committed in or connected to the city of Buenos Aires), 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 very involved in the counternarcotics campaign. All of Argentina's security forces face severe counternarcotics budget limitations which have hampered investment in training and equipment. Also, a lack of coordination between the many, and at times competing, law enforcement organizations continues to lessen GOA effectiveness. The GOA recognizes this problem and has taken some steps to try to alleviate it.

Marijuana seizures were down slightly from 2000, while heroin seizures increased dramatically. In 2001, 13,402 kilograms of marijuana, 84 kilograms of heroin (almost double the amount seized in 2000 based on statistics through October 2001), and 1,059 kilograms of cocaine base and hydrochloride were seized in Argentina. Drug arrests continued to decline in 2001, however, from 7,171 arrests in 2000 to 4,047 in 2001. This demonstrates a more focused use of GOA law enforcement investigative resources, where trafficking organizations are being targeted instead of the individual violator.

**Corruption.** The GOA has reiterated that the fight against corruption is one of its highest priorities. Argentina is a party to the Inter-American Anti-Corruption Convention and has ratified the OECD anti-bribery convention.

**Agreements and Treaties.** In 1990, Argentina and the U.S. signed a mutual legal assistance treaty that went into effect in 1993. In 1997, the U.S. and Argentina signed a new extradition treaty that entered into force on June 15, 2000, replacing an outdated treaty signed in 1972. A memorandum of understanding between the U.S. Treasury Department 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 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. It also has bilateral narcotics

cooperation agreements with many neighboring countries, as well as a memorandum of understanding with the U.S. on cooperation in the narcotics field, signed in 1972. The United Kingdom, Germany, Australia, France, and Italy provide limited training and equipment support. Argentina signed the UN Convention Against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol Against the Smuggling of Migrants on December 12, 2000.

**Precursor Chemical Control.** Argentina has a well-developed chemical industry which produces many of the necessary solvents, acids, and oxidizing chemicals needed for the extraction of cocaine from the coca leaf and its subsequent purification. Argentine authorities seized 350,465 liters of precursor chemicals in 2001. SEDRONAR has recognized long-standing problems with the old chemical register, and is beginning to address them: the GOA has introduced new and more secure import and export certificates; SEDRONAR has begun to rebuild a national database of producers and distributors to gain a better understanding of the scope of the problem and has formed an eight-person chemical investigation unit; and the GOA has proposed to its neighbors that they work more closely together to monitor the flows of chemicals in the region.

#### IV. U.S. Policy Initiatives and Programs

In 1989, the governments of the United States and Argentina signed a cooperation agreement against drug trafficking, which was implemented annually until 1995 through a series of memoranda of understanding. The programs continue, using money obligated during earlier years. During that time, U.S. assistance totaled approximately \$2.9 million. Just over \$2 million was used to supply equipment, with the balance used for training programs for Argentine law enforcement personnel. In addition, Argentina has received Andean Initiative Funds in both 2000 and 2001, totaling \$151,000 overall.

Cooperation between U.S. and Argentine authorities, both federal and provincial, continued to be excellent in 2001. The Northern Border Task Force (NBTF) and Group Condor, major DEA-supported initiatives in the frontier region with Bolivia, continue to produce noteworthy results. Both the NBTF and Group Condor devote all of their investigative resources to counternarcotics work. State Department funding has been used to provide equipment and training for both units. The NBTF and Group Condor seized over 695 kilograms of cocaine and arrested 78 traffickers in 2001. A major benefit derived from both the NBTF and Group Condor operations has been the enhanced cooperation between participating agencies in the conduct of joint investigations. The U.S. will continue to work with and train the various agencies involved in these groups to ensure continued success.

Based on the success of the NBTF and Group Condor task forces, the U.S. plans to assist the GOA in establishing similar task forces in the tri-border area and at the Port of Buenos Aires in 2002. The Gendarmaria Nacional's task force operations have been particularly effective in the past year and as a result the U.S. will channel significant amounts of available funding to assist Gendarmaria efforts to establish new task forces and train personnel to staff them. The U.S. also plans to provide some equipment and training to the Prefectura Naval, which places considerable emphasis on maritime drug interdiction activities.

**The Road Ahead.** The GOA should continue to focus its efforts on the critical northern border area where the vast majority of cocaine enters Argentina, without neglecting other potentially important areas such as the tri-border area where Argentina, Paraguay, and Brazil meet. The U.S. will work with 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. The GOA should also determine the extent of South Atlantic maritime trafficking. The U.S. will continue to work with SEDRONAR to develop effective chemical controls and identify the illegal diversion of precursor chemicals.

# Bolivia

## I. Summary

While notable for their significant achievements during the last four years, Bolivia's coca eradication programs recently have had difficulties. An extremely effective eradication program had, by December 2000, eliminated most commercially viable coca production in the Chapare, previously one of the world's largest coca producing areas. Recent changes in the government and disturbances throughout the country have slowed down net eradication and allowed farmers to replant illicit coca in the Chapare region. The Government of Bolivia (GOB) abandoned the policy of forced eradication in the Yungas region following a failed attempt to implement this policy in June. These events combined to create an overall increase in the cultivation of coca. The GOB continued interdiction efforts in the Chapare, disrupting the traffic and transit of drugs and precursor chemicals. While Bolivian traffickers have adapted to a limited supply of precursor chemicals, caused by the GOB's highly effective chemical interdiction program, and have improved the purity levels of Bolivian cocaine base, Bolivia continues to be a transit country for Peruvian cocaine base. Fifteen illegal coca markets remain in operation, and violators have not been prosecuted. Interdiction operations in the Yungas region were derailed in September during confrontations with local residents. Alternative development initiatives in the Chapare continue to provide licit alternatives to coca, and the GOB has undertaken several projects to upgrade its efforts to reduce domestic demand for illicit narcotics. Bolivia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Bolivia continues to trail Colombia and Peru in the production of coca base and cocaine hydrochloride (HCL), but remains a supplier of both. By 2001, the GOB had achieved significant results, reducing Bolivia's cultivation of illicit coca (above the 12,000 hectares allowed by law for traditional use) by more than 70 percent since 1996, from 48,100 hectares to an estimated 19,900 hectares in June 2001. Total potential national capacity to produce cocaine (assuming all coca, including legal leaf, were to be used) fell from 215 metric tons in 1996 to 60 metric tons in June 2001.

The gains in the reduction of coca and cocaine production have been partially offset by Bolivia's growing importance as a transit country for Peruvian cocaine base destined for Argentina and Brazil. Bolivia's borders run through the most remote and least controlled territories of its five neighboring countries—presenting multiple natural routes for smuggling.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Up to June 2001, the GOB seemed committed to implementing the “Dignity Plan,” President Banzer's five-year initiative to remove Bolivia from the coca-cocaine production circuit by 2002. President Quiroga (who assumed office when ill health forced Banzer to retire one year early in August 2001) said he would continue to support the GOB's eradication, interdiction, alternative development, and demand reduction programs outlined in the Dignity Plan. However, the Quiroga administration has been reluctant to take certain measures, such as closing 15 illicit coca markets in the Chapare and prosecuting violators who continue to grow and sell illicit coca.

In November 2001, the GOB issued a decree which authorized the seizure of illegal coca that is transported or dried in the Chapare and the arrest and prosecution of those involved. The decree came under heavy protest by cocaleros, and those detained under the decree were soon released from custody.

A series of violent confrontations with cocalero protesters led to the GOB reversing its policy to pursue forced eradication in the Yungas region, and slowed eradication operations in the Chapare region. Despite

the eradication of 9,395 hectares in the Chapare region during 2001, massive illegal replanting led to increased coca cultivation. Yungas coca cultivation above the 12,000 hectares allowed for traditional use also grew in 2001.

**Extradition.** Bolivia and the U.S. signed a bilateral extradition treaty in 1995. The treaty entered into force the following year and mandates the extradition of nationals for most serious offenses, including drug trafficking. Following several months of legal maneuvers, the Bolivian Supreme Court approved the extradition of Colombian citizen Eduardo Grajales-Posso to face drug trafficking charges in the U.S. He was successfully extradited to Miami in August.

**Counternarcotics Alternative Development.** Alternative development activities, supported by the U.S. Agency for International Development (USAID), with funding from the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL), enable farmers to support themselves and their families without the need to cultivate coca.

As of September 30, 2001, the volume of licit alternative development products leaving the Chapare region, as determined by the transport survey at the region's two points of exit, decreased by four percent, from 173,557 metric tons in 2000 to 165,829 metric tons, at least in part due to cocalero violence, roadblocks, and strikes. The value of these products was calculated, using new methodology at \$28.9 million. The new methodology uses actual wholesale prices to provide better data quality at the critical wholesale selling point, and also eliminates forestry products to focus on agricultural and livestock outputs. Exports of licit fresh and processed crops from the Chapare region totaled \$5 million, an increase of 28 percent in comparison with the \$3.9 million exported last year. More than 16,167 farm families in 298 farmer organizations are receiving alternative development assistance in the Chapare, and 113,956 hectares are planted with licit crops. By late 2001, Chapare families reached by USAID assistance received an estimated farm-gate income of \$1,700 per year from the sale of licit products. (Average per capita income nation-wide was \$1,000.)

USAID's Yungas Development Initiative completed treatment of over 600 cases of leishmaniasis and tuberculosis, and trained some 7,500 people in the Yungas region to prevent and treat these diseases. The program also initiated the construction of four gravity water systems for use by over 900 persons and 11 communal sanitary systems for use by about 4,700 persons. Community-level projects totaling \$1.37 million were instrumental in achieving coca free agreements with communities in the Caranavi and Palos Blancos areas, but only a very insignificant amount of coca (40 hectares) was eliminated.

**Law Enforcement Efforts.** The GOB and USG began a two-year program to expand the size of the Special Drug Police Force (FELCN) and its specialized operational units. This expansion includes personnel growth of more than 15 percent, the upgrading of its existing physical infrastructure, and the basic construction of at least 14 new bases throughout the country. This improvement effort also includes constructing a national communication grid, establishing several computer-based data banks and information sharing systems and upgrading operational and office equipment and gear.

For calendar year 2001, the GOB seized 65.95 metric tons of coca leaf, 4.46 metric tons of cocaine (HCL and base), 5.2 metric tons of marijuana, 165,000 liters (liquid), and 46.8 metric tons (dry) of precursor chemicals, 284 vehicles, and \$834,910 in currency; destroyed 878 cocaine labs; and made 1,674 arrests. GOB efforts focused on intercepting illicit drugs and chemicals as well as on detecting and destroying organizations that bring chemicals into Bolivia from Chile and Argentina, and those that transfer cocaine from Bolivia into Brazil and Argentina.

The USG is also assisting the GOB in completely reforming DIGECO—the office charged with regulating the commercialization of legal coca. This is an integral part of a long-term strategy of increasing interdiction efforts and effecting control over the legal market to combat the illegal trade of coca leaf. In November, however, Yungas coca growers reached an agreement with the GOB that they, not DIGECO, would control the only legal coca market at Villa Fatima.

The Code of Criminal Procedures (CCP) was implemented fully in June with the first oral trials beginning in September. The introduction of oral trials has reduced trial lengths from years to less than one week, but getting cases to trial is difficult. Congress has delayed naming district attorneys, there is a lack of mid-level leadership within the Public Ministry which has paralyzed prosecution, and the cooperation between police and prosecutors (as both adjust to new roles under the new system) has often broken down.

Most narcotics cases are resolved through plea-bargaining to avoid penalizing informants and revealing their identities (where the informant is a participant). Changes in the substantive Criminal Code will be needed to avoid prosecuting informants. Bail provisions and restrictions are not always applied correctly and the CCP limits the use of preventive detention. In spite of considerable training, prosecutors and judges (unaccustomed to the discretion under the CCP) often fail to apply preventive detention when it is called for.

In early 2001, the GOB enacted a new Public Ministry Law, which professionalizes the prosecutorial function and adapts the office to the requirements of the CCP. The judicial branch introduced a more rigorous merit selection process for junior judges. However, disorganization within the Judicial Council and conflicts within the judiciary may lead to further weakening of the Council.

**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. The present government neither condones, encourages nor facilitates any aspect of narcotics trafficking. While there have been no cases of narcotics-related public corruption involving senior level officials prosecuted during 2001, there have been some instances where current or former Bolivian National Police officers and counternarcotics FELCN/UMOPAR officials have been involved in or implicated in narcotics related corruption.

**Diodato case.** In June, the Bolivian Supreme Court upheld the narcotics prosecution of Marino Diodato—an Italian citizen and Mafia-associated drug kingpin long resident in Bolivia, sentencing him to ten years in prison and four of his cohorts to four to five years in prison. In November, a District Court found Diodato and four cohorts guilty of running a cloned cellular phone operation, sentencing him to five years in prison (which he is appealing). Criminal gambling charges against Diodato are still pending.

**Agreements and Treaties.** Bolivia 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. Bolivia and the United States signed an extradition treaty in 1995, and the treaty has been in force since 1996. Bolivia has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** Total cultivation of coca in Bolivia was approximately 19,900 hectares as of June 1, 2001, with 15,400 hectares in the Yungas region (a mix of 12,000 hectares of legal fields and 3,400 hectares of illicit fields), 4,200 hectares in the Chapare region (all illicit, destined for cocaine production), and 300 hectares in the Apolo region (illicit, but mostly for traditional consumption). Total potential cocaine production in Bolivia increased from 43 metric tons in 2000 to 60 metric tons in 2001.

**Drug Flow/Transit.** Bolivia has become increasingly important as a transit country, primarily for cocaine base of Peruvian origin. Trafficking patterns indicate that Peruvian cocaine base crosses into Bolivia in the Lake Titicaca region, traverses Bolivia's La Paz, Beni, and/or Pando Departments and then enters Brazil. This cocaine base, particularly that of the lowest quality, is for the most part consumed in Brazil. There are indications that some Peruvian cocaine base transiting Bolivia has a final destination of Europe, Mexico, and/or the United States. Some Peruvian cocaine base also transits Bolivia with destinations of Argentina, Chile or Paraguay. Lesser quantities are produced from Bolivian coca; most of this cocaine is bound for Argentina.

**Domestic Programs (Demand Reduction).** During 2001, the USG supported a GOB initiative to upgrade its efforts in demand reduction. The Vice Ministry for Prevention and Rehabilitation undertook several joint projects with the USG including: expanding professional training and certification to drug

counselors, beginning a youth soccer league to promote drug awareness and offer safe and healthful after-school activities, beginning a drug awareness and drug information center, establishing a toll-free 24-hour drug hotline, and establishing a mobile drug information unit to provide services to small, remote communities.

**Chemical Control.** Bolivia is not a major producer of precursor chemicals. Most chemicals are smuggled from neighboring countries, especially from Chile. Over the past four years, the GOB has developed an effective chemical interdiction program, making essential chemicals hard to obtain and expensive. Bolivian traffickers have been forced to alter the cocaine production process to reduce or eliminate the need for some chemicals and are using inferior substitutes and recycling. However, the purity of Bolivian cocaine base has improved from reported purity levels last year. Based on a study of 108 samples taken in the Chapare the average purity of cocaine base was 73.9 percent. Peruvian cocaine base transiting Bolivia (seized in El Alto) was determined to have an average purity of less than 70 percent. There is demand for Bolivian cocaine base, and Bolivian processors have maintained a sufficient level of quality and continue to adapt to the ever-changing dynamics of the cocaine trade in Bolivia.

#### IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** The principal U.S. goals in Bolivia are to permanently remove Bolivia as a major producer of coca leaf for the production of cocaine; promote economic development and establish alternative licit crops and markets so farmers will have viable options to cultivating coca; disrupt the production of cocaine within Bolivia; interdict and destroy illicit drugs and precursor chemicals moving within and transiting the country; and reduce and combat the market for the domestic abuse of cocaine and other illicit drugs. The U.S. Coast Guard maintains a continuous long-term training team in Bolivia to improve their riverine counternarcotics capabilities.

In addition, the USG promotes the administration of justice through projects to modernize the judicial system and improve professionalism within the judicial branch, and specialized programs supporting Special Drug Prosecutors.

**Bilateral Cooperation.** The GOB and U.S. Embassy meet routinely at all levels to establish policy, implement programs and operations, and discuss and resolve problems.

INL, through the Mission's Narcotics Affairs Section (NAS) directly supports and assists all interdiction and eradication forces (police, military, and civilian offices), including the Special Drug Prosecutors project. This support is established and defined under Letters of Agreements (LOAs) signed with the Ministries of Government, Agriculture, and Public (Justice). Goals within the LOAs reflect U.S. interests outlined in the Mission Program Plan. The GOB has met, and generally exceeded, these goals.

**Road Ahead.** Bolivia will have a general election in June 2002. The next president and the makeup of the new legislature will shape the course of Bolivian drug policy and the bilateral relationship with the U.S. on these issues. One immediate result of the impending campaign has been an increased concern and sensitivity by the caretaker Quiroga government over social unrest—which includes violent protests and Chapare roadblocks by illegal coca groups led by cocalero Congressman Evo Morales.

For the immediate future, the USG will urge the GOB to take decisive action in stopping the illegal commercialization of coca in the Chapare region. On the political front, the USG will work to make Bolivian drug policy a consensus electoral issue to ensure broad public debate and to show, for the record, where political leaders stand on these issues. Both the USG and the GOB continue ongoing projects to expand the depth and capacities of counter narcotics forces and offices to increase professionalism, efficiency, and self-sustainability.

For the longer term, the USG will work with the new government (which will take office in August 2002) to establish the Bolivian drug policy and bilateral relationship with the U.S. for the next five-year administration.

# *Bolivia Statistics*

## *(1993–2001)*

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Coca</b>									
Net Cultivation <sup>1</sup> (ha)	19,900 <sup>2</sup>	14,600	21,800	38,000	45,800	48,100	48,600	48,100	47,200
Eradication (ha)		7,653	16,999	11,621	7,026	7,512	5,493	1,058	2,397
Cultivation (ha)	19,900	22,253	38,799	49,621	52,826	55,612	54,093	49,158	49,597
Leaf: Potential Harvest <sup>3</sup> (mt)	20,200	13,400	22,800	52,900	70,100	75,100	85,000	89,800	84,400
HCl: Potential (mt)	60	43	70	150	200	215	240	255	240
<b>Seizures</b>									
Coca Leaf (mt)	65.95	51.85	56.01	93.72	50.60	76.40	110.09	202.13	201.25
Coca Paste (mt)		—	—	—	0.008	—	0.05	0.02	0.01
Cocaine Base (mt)	3.95	4.54	5.48	6.20	6.57	6.78	4.60	6.44	5.30
Cocaine HCl (mt)	0.51	0.72	1.43	3.12	3.82	3.17	3.59	1.02	0.31
Combined HCl & Base (mt)	4.46	5.26	6.91	9.32	10.39	9.95	8.19	7.46	5.61
Agua Rica <sup>4</sup> (ltrs)	20,240	15,920	30,120	44,560	1,149	2,275	16,874	16,874	14,255
<b>Arrests/Detentions</b>	1,674	2,017	2,050	1,926	1,766	955	600	1,469	1,045
<b>Labs Destroyed</b>									
Cocaine HCl	1	2	1	1	1	7	18	32	10
Base	877	620	893	1,205	1,022	2,033	2,226	1,891	1,300

<sup>1</sup> The reported leaf-to-HCl conversion ratio is estimated to be 370 kilograms of leaf to one kilograms of cocaine HCl in the Chapare. In the Yungas, the reported ratio is 315:1.

<sup>2</sup> As of 06/01/2001.

<sup>3</sup> Most coca processors have eliminated the coca paste step in production.

<sup>4</sup> 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 kilograms of cocaine base.



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# Brazil

## I. Summary

Brazil is not a significant producer of illicit narcotics, but it remains a major transit country for illicit drugs shipped to the U.S. and Europe and a major producer of precursor chemicals. The four main narcotics-related events of 2001 were the capture of major drug trafficker Fernandinho Beira-Mar, the implementation of judicial reform (drug courts), the integration of state and federal police forces (SENASP), and the implementation of a Brazil-wide national drug consumption survey.

According to Brazilian authorities, the country's domestic drug problem is increasing. Brazil continues to cooperate with its neighbors on controlling the remote border regions where illicit drugs are transported. Seizures of cocaine doubled in Brazil from 2000 to 2001, reaching eight metric tons.

Brazil is a party to the 1988 UN Drug Convention.

## II. Status of Country

Brazil is a conduit for cocaine base and cocaine HCL moving from source countries to the US, Europe, and Brazilian urban centers. Crack cocaine is used among youths in the country's cities, particularly Sao Paulo. Brazil is not a significant drug-producing country.

Money laundering in Brazil is a criminal offense. Brazil has a large, sophisticated financial sector, and money laundering is considered to be attributable not only to narcotics, but also to activities such as contraband and corruption.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Brazil has undertaken various bilateral and multilateral efforts to meet all objectives of the 1988 UN Drug Convention and has implemented adequate law enforcement measures, achieving significant progress in the fight against illegal drugs. An example of this progress was the capture in April of major narcotics trafficker Luiz Fernando Da Costa, an operation in which Brazil worked closely with Colombia and the DEA.

The Government of Brazil (GOB) has aggressively pursued, with support from SENAD (the GOB National Anti-Drug Secretariat), the implementation of specialized drug courts in Brazil, based on the U.S. model of national drug courts. The USG financed and organized drug court conferences in Brazil, providing U.S. speakers, as well as trips to the U.S. by GOB state justice officials to observe first-hand how drug courts operate in the U.S. The first formal drug court system ("therapeutic justice") was implemented in Pernambuco in April 2001, and other Brazilian states, including but not limited to Sao Paulo, Rio de Janeiro, Rio Grande do Sul, and Bahia, have either implemented drug courts or are in the process of doing so.

The GOB recently created SENASP (the GOB National Secretariat of Public Security), within the Ministry of Justice. SENASP is staffed by police from the Brazilian Federal Police, as well as the state civilian and military police. SENASP staff members are currently reviewing each Brazilian state's security plan, including counternarcotics, and are providing resources to those states in compliance. In September 2001, the USG signed a letter of agreement with the GOB, which included SENASP as a direct recipient of U.S. counternarcotics funds. In October 2001, SENASP held the first national conference of state civilian drug police chiefs in Brasilia.

In August 2001, SENAD signed an agreement with the Brazilian NGO CEBRID (Brazilian Center for Information on Psychotropic Substances) to conduct a Brazil-wide study on drug consumption. Half of

this study is being financed by GOB SENAD funds, and half is being financed by U.S. funds provided under the U.S.-GOB letter of agreement.

**Accomplishments.** In 2001, the Brazilian Federal Police (DPF) seized 8.1 metric tons of cocaine (7.3 metric tons of cocaine HCL, 142 kilograms of crack, and 663 kilograms of base), twice the amount seized (4.05 metric tons) in 2000. Cannabis seizures went from 125 metric tons in 2000 to 136.1 tons in 2001. These numbers do not cover total drug seizures nationwide, however, since seizure figures for local police forces are not reported on a national basis. Taking this into account, DPF sources estimate their own figures represent perhaps 75 percent of seizures and detentions. Three drug laboratories were dismantled in 2001.

The Brazilian international narcotics trafficking kingpin Luiz Fernando Da Costa, aka Fernando Beira-Mar, was arrested in Colombia on April 21, and on April 24 was deported to Brazil, accompanied by the DPF. Beira-Mar had received protection of the FARC in Colombia. On October 19, Beira-Mar's principal lieutenant, Leomar de Oliveira Barbosa, was detained in Capitan Bado, Paraguay, and on October 20, was deported to Brazil, accompanied by the DPF. Both Beira-Mar and Oliveira Barbosa are currently incarcerated in Brazil. The DPF and DEA worked closely together on this case.

**Law Enforcement Efforts.** With the exception of some cannabis grown primarily for domestic consumption in the interior of the northeast region, there is no evidence of significant cultivation of illicit drugs in Brazil. DPF analysts believe that international narcotics trafficking organizations may be investing in building cocaine processing laboratories in Brazilian territory because of the availability of precursor chemicals.

The DPF and state authorities are investigating the extensive domestic illicit drug distribution networks in major and secondary cities in Brazil.

The DPF took measures to identify significant drug trafficking trends, patterns, and traffickers throughout Brazil in 2001. Although one or two monthly deliveries of large amounts of Colombian cocaine may be shipped to Brazil's urban centers of Rio de Janeiro and Sao Paulo, DPF information indicates that Bolivian cocaine generally tends to dominate in those markets.

**Law Enforcement and Transit Cooperation.** The DPF and SENAD continued to express their strong interest in active cooperation, particularly intelligence sharing, and coordination with the U.S. in drug control activities, and in 2001 the DPF invited the DEA to observe DPF operations in the Amazon region. Information sharing with Brazilian police authorities has expanded. Brazil cooperates with authorities in neighboring countries, particularly Colombia, Peru, and Bolivia, to enhance regional counternarcotics efforts.

**Precursor Chemical Control.** Brazil requires registration with the federal narcotics police for all production, transport and distribution of precursor chemicals. A 1995 law places 11 chemicals under federal control (24 more are under consideration), 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 hinders active follow-up on shipments.

The DPF have organized precursor chemical training and initiated interdiction operations of chemical precursors, including cyclical audits and investigations of Brazilian chemical firms. Brazil is compliant with the agreements to establish a method for maintaining records of transactions of the established list of precursor and essential chemicals and has established procedures under which such records can be made available to other countries' law enforcement authorities. (For details, see the Chemical Controls chapter of this report.)

**Domestic Programs (Demand Reduction).** SENAD continues to enjoy success with its toll-free number on drug information. The USG funds a SENAD-sponsored Brazil-wide survey of drug consumption, and supports demand reduction and drug education programs in Brazil. Continuing previous years' investments, the U.S. supported training sessions for officers of PROERD, which is

modeled on the American Drug Abuse Resistance and Education (DARE) program. PROERD provides training to uniformed state military police drug education volunteers in 22 of Brazil's 26 states, as well as in the Federal District.

**Corruption.** As a matter of government policy, Brazil does not condone, encourage, or facilitate production, shipment, or distribution of illicit drugs or laundering of drug money. The GOB recently established a ministry/cabinet-level institution for the oversight of public corruption in the federal government.

**Agreements and Treaties.** Brazil became a party to the 1988 UN Drug Convention in 1991. Agreements based on the 1988 Convention form the basis for counternarcotics cooperation between the U.S. and Brazil. Brazil is also a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Brazil also has a number of narcotics control agreements with its South American neighbors, several European countries, and South Africa. Brazil cooperates bilaterally with other countries and participates in the UNDCP and the Organization of American States/Inter-American Drug Abuse Control Commission (OAS/CICAD). Brazil signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants on December 12, 2000. Brazil signed the Protocol against the Illicit Manufacturing of and Trafficking in Firearms on July 11, 2001.

The bilateral mutual legal assistance treaty (MLAT) between the United States and Brazil was approved by the Brazilian congress in December 2000, and entered into force in March 2001.

Brazil and the U.S. are parties to a bilateral extradition treaty signed in 1961. Brazil cooperates with the U.S. and other countries in the extradition of non-Brazilian nationals accused of narcotics-related crimes. According to the Brazilian Constitution, however, no Brazilian shall be extradited, except naturalized Brazilians in the case of a common crime committed before naturalization, or in the case where there is sufficient evidence of participation in the illicit traffic of narcotics and related drugs, under the terms of the law. There were no extraditions to the U.S. of fugitives accused of narcotics activities in 2001. As of December 31, 2001, however, there were three fugitives in detention in Brazil as a result of U.S. extradition requests based on narcotics and related charges.

**Drug Flow/Transit.** The vast Amazon region remains difficult to adequately monitor, increasing the likelihood of narcotics moving by air and along the extensive river system. DPF officials indicate that cocaine leaving Colombia and entering Brazil by air is destined for international markets in the U.S. and Europe hidden in containerized cargo. According to the DPF, smaller amounts of cocaine leave Colombia via Brazil's waterway networks in the Amazon region and are mainly destined for the Brazilian domestic market.

#### IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** U.S. counternarcotics policy in Brazil focuses on liaison with and assistance to Brazilian authorities in identifying and dismantling international narcotics trafficking organizations, reducing money laundering and increasing awareness of the dangers of drug trafficking and drug abuse. Assisting Brazil to develop a strong legal structure for narcotics and money laundering control and enhancing cooperation at the policy level are key goals. Bilateral agreements provide for cooperation between U.S. agencies, the National Anti-drug Secretariat, and the Ministry of Justice.

**Bilateral Cooperation.** In December 2001, the USG provided training pertaining to the MLAT, which entered into force in March. The MLAT supports efforts by Brazil to deal with narcotics trafficking and organized crime, as well as other offenses.

In accordance with the bilateral U.S.-Brazil letter of agreement on counternarcotics, bilateral programs that took place in 2001 included cooperation with the Regional Intelligence Center of "Operation

COBRA,” the International Drug Enforcement Conference (IDEC), “Operation Outreach,” and “Operation Seis Fronteiras III.”

The Regional Intelligence Center, which was inaugurated in Tabatinga on December 13 by the DPF, is an IDEC initiative that will facilitate counternarcotics intelligence gathering and sharing, concentrating on riverine and air intelligence. This information will be shared between law enforcement agencies from Brazil, Colombia, Peru, and the U.S. Brazil is a member of IDEC’s Andean and Southern Cone Working Groups, and in November, hosted the Southern Cone working group meeting in Foz do Iguazu, Brazil.

Through “Operation Outreach,” the DEA’s agents posted in Sao Paulo worked closely with the DPF in Minas Gerais, Parana, Rio Grande do Sul, Santa Catarina, Mato Grosso do Sul, and Espirito Santo, reinforcing the DPF’s capability to exchange information between offices concerning drug trafficking trends in their respective areas of responsibility.

Brazil took part in a successful regional exercise targeting precursor chemicals, “Operation Seis Fronteiras III,” in cooperation with Bolivia, Colombia, Ecuador, Peru, Venezuela, and the DEA.

The U.S. provided assistance with drug courts, with the implementation of the MLAT, and with support for the GOB countrywide drug survey. Other areas of bilateral cooperation include “Operation COBRA,” anti-arms trafficking, increased communications capabilities for SENAD, and the DARE program.

The GOB’s “Operation COBRA” (COlombia-BRAzil), intended to augment the presence of the GOB in the border area, involved coordination among the GOB Federal Police, military, MRE, Customs, and Internal Revenue, with the installation and occupation of eight law enforcement bases in the area. In September 2001, the USG signed a letter of agreement with the GOB dedicating USG funds specifically to this project, which the GOB began to use to further expand “Operation COBRA.” The Amazon Surveillance System (SIVAM), which will provide an integrated air- and land-based radar system, is scheduled to be operational in mid-2002.

Following a recommendation from U.S.-GOB law enforcement talks in Brasilia in December 2000, a special arms trafficking subcommittee of U.S. and GOB representatives met in April and August, which included visiting officials of the U.S. Bureau of Alcohol, Tobacco, & Firearms (ATF).

PROERD, the Brazilian DARE (Drug Abuse Resistance and Education) program, is the largest such program outside of the U.S. Actively endorsed by the GOB, it offers the Brazilian community education and a positive view of the uniformed Brazilian military police, and gives the USG a vital link to the Brazilian military police throughout Brazil, at all levels. Most of the funding for PROERD is provided by the GOB at the state level, but the U.S. will continue to provide assistance to sponsor PROERD in Brazil.

SENAD proposed a program to enhance counternarcotics network connectivity with the purchase and installation of computer equipment in all the Brazilian state capitals, to be financed by the USG.

**The Road Ahead.** The planning and implementation of the ambitious Operation COBRA in northern Brazil demonstrates that the government of Brazil is serious in its commitment to combat trafficking and production of illegal drugs. Further signs of Brazil’s strong commitment to combating drug trafficking would include passage of omnibus counternarcotics legislation and pending legislation on serious crimes, including narcotics trafficking; continued high-level attention to counternarcotics efforts; increased funding of counternarcotics programs and law enforcement agencies; and continued interdiction efforts in the regions most exploited by international narcotics traffickers.

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# Chile

## I. Summary

Chile is not a center of illicit narcotics production, but it is used as a transit country for cocaine and, more recently, heroin to the U.S. and Europe. Chile also is a source of essential chemicals for use in coca processing in Peru and Bolivia. During 2001, through close cooperation with neighboring countries, Chile achieved narcotics control successes, including seizures of Colombian heroin transiting Chile.

Chile is in the midst of a criminal justice system reform which should improve its ability to prosecute narcotics offenses. Although legislative reform is planned, Chile remains vulnerable to money laundering due to strict bank secrecy laws and inadequate anti-money laundering legislation. Chile is a party to the 1988 UN Drug Convention.

## II. Status of Country

Chile has a growing problem as a transshipment point for Andean cocaine to the U.S. and Europe. In the past two years, heroin has also appeared in Chile. Chile is not a drug producing country, aside from small quantities of marijuana destined for the domestic market. Although there have been successful raids on cocaine labs in Chile during the past year, Chile is not a substantial source of refined cocaine.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Chilean Congress is working on a comprehensive revision of Chile's 1995 counternarcotics law. A draft law has been pending in the legislature since 1999, and there is increased likelihood that it will be passed in the coming year. The key elements of the draft law are enhanced anti-money laundering provisions, more flexibility in sentencing for crimes of possession (the current minimum sentence is five years regardless of the severity of the offense), and harmonizing the drug law with Chile's ongoing criminal justice system reform.

The National Drug Control Commission (CONACE) develops and coordinates the national drug plan. CONACE also coordinates all demand reduction activities.

**Accomplishments.** Chile is in the midst of an ambitious multi-year program (2000-2004) to replace an inefficient judicial-controlled, inquisitorial criminal justice system with a U.S. style adversarial system. The reform is being instituted gradually, with more of Chile's 13 regions adopting the reform each year. It began with two pilot regions in December 2000, and three more regions adopted the new system in October 2001. The Santiago region will be the final region to adopt the reform in 2004.

As part of the reform, a national prosecutor's office (Ministerio Publico or MP) has been established. The MP has set up a special unit dedicated to prosecuting narcotics trafficking offenses and will also be responsible for directing criminal investigations. The new justice system represents an important and ambitious modernization of the Chilean criminal justice system and should enhance the ability of the authorities to convict narcotics traffickers.

Chilean authorities have recognized the country's domestic trafficking problem, and there have been some high profile law enforcement operations targeting trafficking organizations. An ongoing police operation focused on drug trafficking in the "La Legua" neighborhood (which is the center of local narcotics trafficking in the Santiago area) has resulted in the arrest of more than thirty people, many of whom are members of extended families.

**Law Enforcement Efforts.** Chilean authorities have had success in interdicting narcotics transiting Chile. As increased attention is focused on the Andean source countries, narcotics traffickers are transporting

their product through Chile in an effort to take advantage of Chile's clean reputation. This strategy is based upon the presumption that flights and vessels originating in Chile are much less likely to be subject to close scrutiny by authorities in the United States or Europe than are flights and vessels Colombia, Peru or Bolivia.

Prior to 2000, no seizure of heroin was ever recorded in Chile. This situation has changed dramatically, and during 2000 Chilean authorities made six seizures totaling 25.4 kilograms of heroin. Those arrested included two Argentines, five Colombians, one Ecuadorian, one Spaniard, and one American. The frequency of seizures decreased in 2001, but the quantity of heroin seized went up. In two related seizures in June and July, authorities seized 33.3 kilograms of heroin and arrested 12 suspects.

Most of the shipments seized were destined for the United States. Besides seizures within Chile, there were substantial heroin seizures in the U.S. from flights originating in Santiago, including the seizure of 23.2 kilograms of heroin and the arrest of six Argentines and one Chilean since September 2000 in six different incidents. The presence of multi-national couriers transiting and organizing in Chile suggests that this is not a small scale, home grown activity but rather is being controlled by international cartels.

Chile is beginning to have a small-scale problem with domestic cocaine labs. Chile has had law enforcement successes against the labs, with the highest profile seizure occurring in June 2001, when Chilean authorities raided and dismantled a medium size drug production lab in Melipilla, about one hour from Santiago. The raid was the follow-on to the interception by Chilean authorities, working with Peruvian and U.S. agents, of 51 kilograms of cocaine coming into Chile.

**Corruption.** Corruption among police officers and other government officials is not a major problem. When officials have been accused of corruption, GOC institutions have investigated the allegations and imposed appropriate sanctions.

**Agreements and Treaties.** Chile is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Chile signed the UN Convention against Transnational Organized Crime on December 13, 2000. The U.S.-Chile extradition treaty was signed in 1900, and extraditions from Chile under this outdated instrument are extremely difficult. Two particular problems in extradition cases are the extremely high evidentiary requirements imposed by Chilean courts in extradition hearings and the lack of a Chilean government entity to represent the requesting foreign state. The representation problem will be remedied when the judicial reform is fully implemented in 2004, at which time the MP will take on this role.

The U.S. and Chile entered into an agreement concerning cooperation to suppress the processing, trafficking, consumption and export of narcotic drugs in 1994. In August 2000, Chile and the U.S. signed a new letter of agreement, under which the U.S. is providing counternarcotics/anticrime assistance to Chile. Chile has similar agreements in force with the Argentina, Austria, Bolivia, Brazil, Colombia, Costa Rica, Croatia, Cuba, Ecuador, El Salvador, Mexico, Panama, Paraguay, Peru, Russia, Singapore, South Africa, Uruguay, and Venezuela.

Multilaterally, Chile is an active member of the Inter-American Drug Abuse Control Commission (CICAD) and a strong supporter of efforts to promote an effective Multilateral Evaluation Mechanism (MEM). As a party to the 1988 UN Drug Convention, Chile continues to work towards compliance with its goals and objectives via amendments to its 1995 drug law.

**Drug Flow/Transit.** Chile is increasingly being used as a transshipment point for Andean cocaine destined for the U.S. and Europe. Traffickers from source countries make effective use of Chile's extensive airline connections and modern containerized cargo facilities at its ten ports. Illegal coca products enter principally from Peruvian and Bolivian land points, although Argentina is increasingly being used as traffickers look to identify new routes when the traditional ones are closed. Complicating the challenge to Chilean authorities are treaty provisions providing for inspection-free shipment of transiting cargo originating in Bolivia and Peru.

**Domestic Programs (Demand Reduction).** The Chilean public is concerned about rising drug use and distribution and associates these problems with rising street crime. CONACE's last comprehensive survey was conducted in 2000, and it demonstrates rising domestic drug use. According to the study, 6.3 percent of the population (83,000) had used illegal drugs in the past year and 3.1 percent had done so in the pre-survey month. In 1998 these numbers were 5.3 percent and 2.2 percent. Notably, use of illegal drugs among females between the ages of 12 and 18 is now almost equal with male teens. The most prevalent drug (90 percent) is marijuana. According to CONACE, 15 percent of drug users are cocaine users. NGOs are active in rehabilitation and education efforts, often with small grants from CONACE as part of a decentralized decision-making initiative, and Chilean schools incorporate drug education in their curricula using course materials designed by the NGO community. Even so, demand reduction budgets and programs are lagging behind the rise in domestic drug use.

#### IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** U.S. support to Chile in 2001 reinforced ongoing joint U.S.-Chilean priorities in six areas: 1) training for prosecutors, police, judges and public defenders in their role in the reformed criminal justice system; 2) money laundering; 3) enhanced police investigation capabilities; 4) demand reduction; 5) diversion of precursor chemicals; and 6) transshipment of illegal substances using containerized cargo.

**Bilateral Cooperation.** During 2001, the U.S. government pursued numerous initiatives based upon the above priorities. These included: a U.S./Chile letter of agreement (LOA) to provide U.S. support to the ongoing criminal justice reform; several training courses for Chilean judiciary officials, prosecutors, and public defenders; visitor programs for Chilean local officials to observe U.S. demand reduction programs and a drug prevention roundtable in Santiago with Ohio First Lady Hope Taft, who is an advisor to the U.S. Office of National Drug Control Policy (ONDCP).

**The Road Ahead.** In 2002, the U.S. government will continue to support Chilean efforts to combat the narcotics-related problems listed above. Since the criminal justice system reform is an ongoing process, the U.S. plans to continue to provide capacity-building assistance, including a course for the Chilean police on investigation techniques and evidence collection. Efforts to enhance the counternarcotics capabilities of the Chilean police pursuant to the LOA will continue. U.S.-funded courses provided by the IRS on money laundering, U.S. Customs on narcotics interdiction, and the DEA on essential chemical diversion are all expected to take place in 2002. U.S. support to build a private sector/media counternarcotics alliance will also continue.

# Colombia

## I. Summary

Colombia is the world's leading producer and distributor of cocaine and a significant supplier of heroin to the United States. The drug trade partially finances the hemisphere's oldest and largest terrorist group, the Revolutionary Armed Forces of Colombia (FARC), which exerts influence over a large area in southern Colombia. Some elements of the FARC have gone beyond merely "taxing" the drug trade and have taken direct steps to control local base markets. At least one FARC unit has served as a cocaine source of supply for at least one international drug trafficking organization. The paramilitary organization known as the United Self Defense Forces of Colombia (AUC) has also maintained a significant stake in the drug trade, expanding its influence from its traditional base in the north to many areas in the coca-rich south that were previously controlled by the FARC. At the time of INCSR publication, the Pastrana administration, approaching the final months of its term, had suspended its grant to the FARC of a demilitarized zone ("despeje") and was engaged in efforts to reestablish GOC control of the area. Citing the FARC's repeated acts of terrorism and use of the despeje for the pursuit of illicit activity, President Pastrana decided not to continue the peace process with the FARC on February 20. The GOC and the National Liberation Army (ELN) have agreed to a six-month timetable which calls for a "peace conference" in Havana in January 2002, followed by four thematic fora in European capitals. The two sides have tacitly agreed to use the next six months to set the stage for further peace talks in the next administration, after August 2002.

To address the needs of the region more comprehensively, the Bush administration in 2001 proposed the \$1 billion Andean Regional Initiative, of which \$645 million will be used to fund the Andean Counterdrug Initiative (ACI). The ACI will sustain and expand the counternarcotics programs begun under Plan Colombia while increasing counternarcotics-related law enforcement and alternative development support to other countries in the region threatened by narcotics trafficking.

The first phase of Plan Colombia operations, in the southern departments of Putumayo and Caqueta where the majority of illegal crops are cultivated and the presence of armed illegal groups is strongest, yielded many positive results. The three battalions of the new Counterdrug (CD) Brigade destroyed hundreds of cocaine base laboratories, seized thousands of gallons of precursor or essential chemicals, and destroyed a 40-kilometer road potentially used to transport drugs and chemicals. The GOC signed alternative development/voluntary eradication pacts with 37,000 small farmers for the elimination of as many hectares in Putumayo. Resources with which to implement those pacts began arriving in mid-2001.

For the first time in history, the GOC permitted aerial coca eradication in southwestern Putumayo, the densest area of coca cultivation in the world. In joint operations with the Colombian Army, the U.S.-supported Colombian National Police (CNP) Antinarcotics Directorate (DIRAN) sprayed approximately 84,250 hectares of coca nationwide—nearly twice as much as the yearly total in 2000. The DIRAN also sprayed 1,819 hectares of opium poppy in one northern and three southern departments.

Colombia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Colombia remains the world's largest cocaine base producer, with over 580 metric tons produced in 2001 from indigenous coca. Up to three-quarters of the world's cocaine hydrochloride (HCl) is processed in Colombia from cocaine base imported from Peru and Bolivia and locally grown coca. Although estimates were not available at the time of publication, it is likely that the coca crop increased in 2001—with most of the increase occurring outside of the eradication areas. Coca cultivation has steadily increased over the last three years, though at a lessening rate: 28 percent in 1998, 20 percent in 1999, and 11 percent in 2000.



Colombia is also a significant supplier of heroin to the United States. Although it supplies only about two percent of heroin worldwide, virtually all of the approximately eight metric tons it produces yearly is destined for the U.S.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In the calendar year 2001, the number of extraditions skyrocketed, with 26 fugitives, including 23 Colombian nationals, extradited to the U.S. and eight more in the final stages of removal, an increase of nearly 700 percent over the prior three-year period. Among those extradited to the United States in 2001 were drug kingpins Alejandro “Juvenal” Bernal-Madrigal and Fabio Ochoa-Vasquez, former associates of the notorious Pablo Escobar. Dozens more are currently under arrest and awaiting approval for extradition. The increase in extraditions reflects renewed political will on the part of the Colombian authorities and the strong bilateral relationship between the United States and Colombia. Many of the extraditions were the result of unprecedented bilateral investigative efforts.

The Asset Forfeiture Unit of the Prosecutor General’s Office continued to work with the U.S. Departments of Justice and the Treasury to freeze and seize Colombian bank accounts used to launder drug proceeds related to U.S. investigations and to seize property associated with illegal funds. Although much property has been seized, there are only a handful of final forfeiture judgments to date.

USAID is supporting the peace process by backing activities that promote a culture of non-violence in Colombia and facilitate work at the negotiations table. In connection with this effort, USAID has signed a Cooperative Agreement with a public international organization to facilitate technical assistance to the GOC’s Office of the High Commissioner for Peace and to manage grants to U.S. and local non-governmental organizations (NGOs) and universities dedicated to undertaking research, conducting training, and implementing peace-related projects in Colombia. As of December 2001, close to \$1.9 million had been disbursed to 16 Colombian private and public organizations.

The third of three battalions in the Colombian Army’s Counterdrug (CD) Brigade (created in 1999) became operational in 2001. The Brigade now numbers approximately 2,800 troops, including its support battalion. Planning has begun for a second CD Brigade, which will enable the Army to simultaneously conduct operations in more than one part of the country.

Since the 1997 signing of the USG-GOC shipboarding agreement, in which the process for approving the boarding of Colombian ships in international waters by U.S. officials was streamlined, and the September 1999 Standing Interdiction Operations Plan, cooperation with the Colombian Navy (COLNAV) and Coast Guard has been enhanced, and maritime counternarcotics efforts have increased.

The Colombian Air Force (FAC) continued to improve its air space monitoring and interdiction capabilities. A new radar facility was installed in Tres Esquinas for use by the Joint Task Force South and its Joint Intelligence Center. In April, however, sharing of data from the ROTHOR system (Relocatable Over the Horizon Radar), used to track suspected drug trafficking aircraft, was suspended as a result of the erroneous shutdown of a civilian aircraft in Peru.

The DIRAN, with U.S. support, implemented an Airmobile Interdiction project, which provides the DIRAN with elite units to conduct interdiction activities. One company was trained in 2000. Two additional companies were formed in 2001, although equipping and training will not be completed until 2002. The Airmobile Interdiction Company conducted over 30 operations against narcotics targets, resulting in the destruction of HCl laboratories and associated narcotrafficking infrastructure. Two intelligence/surveillance aircraft were made available to the DIRAN in 2001, greatly enhancing its capability to support counternarcotics interdiction and eradication operations, including narcotics interdiction operations of the Colombian military. With the additional operational units supported by Plan Colombia emergency supplemental funds, the DIRAN has continued its outstanding record of drug interdiction and eradication.

The U.S.-supported DIRAN aerial eradication program, bolstered by four additional OV-10 spray aircraft, had a very successful year. Operations took place out of the permanent Forward Operating Locations (FOL) in Larandia and San Jose de Guaviare, as well as from temporary bases in Cucuta, Bucaramanga, Tumaco, and Pasto. The DIRAN sprayed a total of approximately 84,250 hectares of coca and 1,819 hectares of opium poppy. The total for coca is the highest ever, and close to twice as much as in 2000. In a very successful joint operation with Colombian military forces, spraying took place for the first time ever in Putumayo Department, with approximately 25,000 hectares sprayed there and in neighboring Caqueta between December 22, 2000 and February 6, 2001. Assessment of the actual results of the aerial eradication program to date is yet to be finally determined; however, all agree that in the absence of aerial eradication, the coca harvest in Colombia would have been significantly greater. The presence of ground troops resulted in far fewer ground fire attacks on spray planes than expected, although ground fire continues to be a recurring threat.

The only active ingredient in the herbicide used in the aerial eradication program is glyphosate, one of the most widely used agricultural herbicides in the world. It has been tested widely in the United States, Colombia, and elsewhere in the world. It is mixed with water and one adjuvant, Cosmo-Flux 411F. The U.S. Environmental Protection Agency (EPA) approved glyphosate for general use in 1974 and re-registered it in September 1993. It is approved by the EPA for use on cropland on which numerous crops are grown, forests, residential areas, and around aquatic areas. In its latest comprehensive review of studies on glyphosate, the EPA concluded that proper use of glyphosate would not cause serious or long-term adverse effects in humans. Though there are some risks of eye or skin irritation, this is only in cases of direct exposure, not spray drift, and even then symptoms are short-term and reversible. With respect to environmental impact, glyphosate is not persistent in soil, does not build up after repeated use, and is biologically degraded readily by soil microbes. Because it bonds tightly with the soil, glyphosate is unlikely to leach into underground drinking water.

Cosmo-Flux 411F is an adjuvant that increases the herbicide penetration through the waxy layer of the coca leaf by allowing more of the spray to stick to the plant. Cosmo-Flux 411F is produced in Colombia, where the Ministry of Health has classified it as lightly toxic. This product is not registered in the United States. It should be noted that the EPA does not regulate adjuvants because adjuvants are not pesticide products as defined by the Federal Insecticide, Fungicide, and Rodenticide Act. However, the EPA has examined the ingredient list of Cosmo-Flux 411F and determined that the ingredients of Cosmo-Flux 411F are listed in 40 C.F.R. 180.1001, and that they are acceptable for use on food products when the label instructions are followed.

USAID's alternative development program complements the interdiction and forced aerial eradication components of the USG-GOC counternarcotics strategy. It seeks to increase legal economic opportunities that will result in their permanent abandonment of illicit crop cultivation. The initial focus of these efforts in 2000 and 2001 was in Putumayo Department, where the first resources were delivered in mid-2001. The challenges in Putumayo, however, are formidable: a large terrorist presence and inadequate infrastructure to support the projects. Early indications are that alternative development efforts in southern Colombia might be better concentrated in neighboring departments where viable economic activities already exist.

**Accomplishments.** In 2001, the CNP reported the seizure of 57.3 metric tons of cocaine HCl, 26.7 metric tons of cocaine base and (semi-refined) basuco; 796 kilograms of heroin; and 80.44 metric tons of marijuana; Colombian authorities arrested 15,832 persons for drug-related offenses in 2001.

The DEA's "Operation White Horse" won the Attorney General's Award in 2001 for its months-long investigation of the Salazar-Maldonado heroin trafficking organization, which led to a simultaneous international takedown in which 68 members of the organization (involved in every aspect of trafficking, including transportation, distribution, and money laundering) were arrested and 4.1 kilograms of heroin and over \$40,000 were seized. Operation White Horse was a joint or at least coordinated effort with each country's information leading to greater success in the other country and a joint takedown/arrest. Shortly afterward, nearly 10 kilograms of heroin were seized and Silvio Ricautti Cundami-Lasso was arrested. He

was a member of the Humberto Jaraba-Angel transportation organization affiliated with Operation White Horse target Wilson Salazar-Maldonado. In a subsequent Operation White Horse operation in March, the CNP arrested 11 additional individuals, associated with the Humberto Jaraba-Angel and the Salazar-Maldonado organizations, who had been shipping heroin from Colombia to the U.S. via Panama and Mexico.

In April, another months-long joint effort between the DEA's Bogotá office, the CNP, and the Colombian Army culminated in the Army's capture of Luis Fernando Da Costa, aka Fernandinho Beira Mar, a close ally of Tomas Molina-Caracas and the leader of a major Brazilian cocaine and weapons smuggling organization. The GOC deported Da Costa to Brazil, where he is being held on drug trafficking and murder charges.

As a result of information developed by the DEA's Barranquilla office and the CNP's Sensitive Investigations Unit (SIU), elements of the CNP/SIU seized approximately \$35,000,000 in two apartments in Bogotá in August. The cash was identified as belonging to DEA fugitives (and twin brothers) Miguel Angel and Victor Mejia-Munera.

Although USAID's Alternative Development (AD) program began only in August 1999, some results have already been achieved. To date, 21 voluntary elimination agreements have been signed with small farmer associations in poppy growing areas in the Colombian departments of Tolima, Huila, Cauca, and Narino, resulting in the elimination thus far of 680 hectares of poppy, benefiting an estimated 1,740 small farm families. Under the poppy program, 1,070 hectares of licit crops have been supported. Since Plan Colombia funds were obligated initially in September 2000, 33 voluntary elimination agreements have been signed with 37,000 families in Putumayo for the elimination of as many hectares of coca. By year's end, 70 hectares of coca had been voluntarily eradicated. A hearts of palm canning plant has been completed in Puerto Asis and a road improvement project is underway in Puerto Guzman. Forty social infrastructure projects, responding to community priorities and reinforcing improved municipal management, are being implemented in Putumayo and Caqueta, 39 under the Local Governance Program and one under the Alternative Development Program. Two U.S. contractors—Chemonics for agriculture and Associates in Rural Development (ARD) for municipal development—are active in Putumayo.

The security threat and lack of viable economic infrastructure in Putumayo pose formidable obstacles to the long-term likelihood of success of alternative development in Putumayo. Early evidence indicates that many growers, faced with the option of moving to legal crops or continuing to grow coca, have opted to continue with the most viable cash crop—coca. Barring a dramatic shift in circumstances in Putumayo, this election may be the one most growers make. The GOC and USG are now considering the possibility of focusing future AD efforts in neighboring departments where a greater number of legal economic activities already exist and have shown a potential for success.

Cooperation between and among the various branches of the Colombian armed forces and the police continued to improve. As in 2000, all of the armed forces conducted unilateral and joint counternarcotics operations with the police, deploying in areas where police face a significant terrorist threat. Further, the CNP and the Army participated in intensive joint sustainment training to maintain the skills of the army's new Counterdrug Brigade, which has conducted operations in the coca-growing regions of southern Colombia (Caqueta, Putumayo, and Amazonas departments). The CNP and the Colombian Army have also been working together on tactical operations that involve the CD Brigade. The Joint Intelligence Center (JIC) in Tres Esquinas includes personnel from the military and the police.

In addition to supporting DIRAN aerial eradication, JTFS conducted more than 220 interdiction operations aimed at targeting drug trafficking infrastructure in southern Colombia in areas controlled by the FARC and AUC. JTFS was supported by 33 U.S. UH-1N helicopters which flew a total of 14,675 sorties, carried 26,659 passengers, transported 517,880 pounds of cargo, and performed 86 medical evacuations in support of JTFS operations. The aircraft were struck 50 times by small arms fire from "narcoterrorists" attempting to disrupt counternarcotics operations.

JTFS conducted several notable operations in Phase I. The CD Brigade's presence during the first seven weeks of spraying in Putumayo was widely viewed as the reason that there were only six incidents of ground fire impacts against spray planes—far fewer than expected in a zone with such a high presence of armed illegal groups. The Brigade also identified and destroyed a FARC-built 40-kilometer road potentially used to transport drugs, weapons, and essential chemicals to and from Ecuador, including seven abandoned FARC base camps along the corridor. In a joint CD Brigade-12th Brigade operation in a stronghold for the three FARC fronts most heavily involved in drug trafficking, JTFS forces destroyed several more abandoned FARC base camps. In August-September the CD Brigade dealt a serious blow to FARC drug trafficking infrastructure in Putumayo near the Ecuador border, a center of operations for the FARC 48th Front and a key drug corridor for the movement of precursor chemicals, drugs, arms, and explosives to and from neighboring Ecuador, where the Brigade destroyed a FARC-operated oil refinery capable of producing 2,000 gallons of gasoline a day for use exclusively in the production of coca base.

JTFS operations were directed at all drug producing/trafficking groups—guerrilla and paramilitary. In May, CD Brigade units clashed with AUC forces in Caqueta, resulting in 11 paramilitaries killed in action. The paramilitary forces had been engaged in drug trafficking activity and extortion of the local populace. This was the biggest blow by Colombian Army forces to the AUC in all of Colombia since the founding of the AUC.

In these operations in Phase 1, JTFS forces destroyed 20 cocaine HCl labs, 700 coca base labs, 167 kilos of cocaine HCl, and 2,951 kilos of coca base. They seized 291,603 gallons of liquid precursor chemicals, 406,914 kilos of solid precursor chemicals, 117 vehicles, and a great deal of drug processing equipment such as microwave ovens. One hundred sixty-eight FARC and AUC members were killed in action; 435 were captured.

Although JTFS forces suffered some setbacks in Phase I, overall their accomplishments were extremely impressive, and their motivation and dedication to counternarcotics operations continues to be high. Increased emphasis on human intelligence, and more funds for the CD Brigade to purchase informants, would build on this success, since such intelligence was the critical factor in almost all of the cocaine HCl labs they destroyed. Transport aircraft dedicated to JTFS, and the construction of temporary living facilities at CD Brigade forward operating bases, would further increase operational effectiveness.

The year 2001 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 Bogotá, Bahia Malaga, and Cartagena to speed the transfer of tactical interdiction information. The Colombian Navy also improved its own ship-to-shore communications in 2001.

Colombian Navy (COLNAV) and Marine (COLMAR) forces achieved significant results in 2001. JTFS intelligence officials estimate that some 60 percent to 70 percent of drug material moves through southern Colombia by way of the rivers, and all 20 of the cocaine HCl labs destroyed by JTFS were located on or near a river. Operation Tsunami and others in the southwest region verified the presence of significant coca production in the region and provided a government presence that citizens had not witnessed for some time. Other operations (some in cooperation with other agencies under the 1997 Maritime Agreement) led to the capture of over 37 tons of cocaine. The COLNAV continues to contribute to the seizures of more than 50 percent of all illegal narcotics shipments. Additional riverine units and more Colombian Army and COLMAR joint operations would increase JTFS effectiveness in combating drug trafficking in the south.

The Juanchaco (Bahia Malaga) airport was reopened for military flights. COLNAV received the final of four Point Class vessels and three riverine patrol boats. COLNAV announced the reorganization of COLMAR with a final end-strength in five years of 25,000 Marines. There was continued improvement in the intelligence and communications exchange process and in operations with JIATF-East. COLNAV implemented significant improvements and reorganization of its Bogotá operations center, as well as a regular deployment schedule for the frigates that provides for one frigate constantly in the Pacific area of operations. Regular "lessons learned" conferences are being held. U.S. Naval Forces South held the first

Operational Naval Committee meeting, setting the stage for further engagement with COLNAV. COLNAV fueling at sea initiative has progressed and is scheduled to be implemented in fall 2002. COLNAV also completed repairs to its German Type 209 oceangoing submarines and they are now available for full duty.

**Law Enforcement Efforts.** Training elements of the Department of Justice (ICITAP and OPDAT) have provided training in the U.S. and Colombia to about 400 prosecutors and investigators in money laundering, human rights, anticorruption, and counternarcotics issues. This training, which continued in 2001, establishes the mechanisms for joint and coordinated investigations and is emblematic of the extraordinary bilateral law enforcement relationship.

ICITAP and OPDAT worked with the Prosecutor General's Office to expand the National Human Rights Units. Eleven satellite units will be created in Cali, Neiva, Villavicencio, Medellin, Barranquilla, Bucaramanga, and Cucuta to create faster access to sites of human rights massacres/crime scenes.

ICITAP and OPDAT also provided the first phase of specialized training (in Colombia and the U.S.) to investigators and prosecutors in crime scene processing, forensic anthropology, blood stain evidence analysis, forensic identification, legal medicine, and interviewing techniques. The training will continue in 2002, and the units will receive crime scene processing equipment and response vehicles.

ICITAP is supporting the CNP, Prosecutor General, Department of Administrative Security, and Institute of Legal Medicine in the creation of a virtual crime laboratory as a core effort in U.S. assistance to the Colombian national and satellite Human Rights Units. Initially the focus is development of a forensic computer network that will allow the agencies to share investigative information related to document imaging and DNA, ballistics, and fingerprint identification systems. The project allows for considerable expansion in the future, both to other parts of the country and with respect to systems that can be connected. ICITAP is also working with Colombian law enforcement agencies on development of a unified investigator training academy, which will reduce the duplication of efforts that currently exists with four academies conducting similar training.

In 2001 the Department of Justice and the U.S. Coast Guard continued to work with the Prosecutor General and Colombian Coast Guard in maritime interdiction training, resulting in the unification of boarding procedures and evidence handling, which will ensure admissibility in any jurisdiction.

There were few significant changes in high-level law enforcement leadership in 2001. A new Prosecutor General and new chief of the Attorney General's Investigative Unit (the former chief of the DIRAN) were appointed. The effectiveness and commitment of law enforcement agencies remained high, as illustrated by the results of the interdiction and eradication operations, and the bilateral investigations mentioned above. Extradition, especially, has significantly improved, due in large measure to a steadfast political will to ensure that fugitives are brought to justice. As noted above, several of the most important law enforcement efforts focused on major drug trafficking organizations such as the Salazar-Maldonado organization and drug kingpins Alejandro Bernal-Madriral and Fabio Ochoa.

**Corruption.** The Pastrana government has reiterated its continued opposition to official corruption. 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. Appropriate legislation has been enacted, including several sections of the new Colombian Criminal Code enacted in 2001, to combat money laundering and related illegal financial flows associated with narcotics trafficking, and a unit exists made up of officials of the Ministries of Justice and Finance to track the illegal flow of money. (Please see the Money Laundering section for specifics.)

To assist GOC anticorruption efforts, USAID is helping to strengthen the office of the Controller General, the National Auditor, and the Accountant General, as well as internal control units in targeted GOC entities to increase and improve financial and management audits. With USAID support, the Accountant General has issued an Executive Resolution that will require 3,000 GOC units to follow the standardized internal control process recommended by USAID. Also with USAID assistance, President

Pastrana signed a decree creating a “National System of Internal Control” across ministries and other national entities. As a result of the passing of this decree, by the end of FY 2005, internal audits will be established and implemented in 26 target GOC entities. Moreover, government and non-government oversight organizations are receiving assistance to develop and promote effective measures to prevent and combat corruption.

**Agreements and Treaties.** Colombia is a party to the 1988 UN Drug Convention 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. Colombia is also a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Colombia signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons on December 12, 2000. In September 2000, Colombia and the United States signed an agreement formally establishing the bilateral narcotics control program. The agreement obligated U.S. funding for U.S. assistance in support of Plan Colombia.

The GOC and USG are also parties to a maritime shipboarding agreement signed in 1997, providing for faster approval for shipboarding in international waters and setting guidelines for counternarcotics cooperation with the Colombian Navy/Coast Guard. The agreement has fostered excellent cooperation between the Colombian Navy and the U.S. Coast Guard. Since October 1999 the Colombian Navy has authorized over 90 requests made to board Colombian vessels, which resulted in the seizure of over 65,000 pounds of cocaine. However, reduced budgets and competition for resources by the riverine programs has limited the Navy and Coast Guard’s counternarcotics capabilities.

**Cultivation/Production.** At the time of publication, crop information for 2001 was not yet available. The coca crop was estimated to be 136,200 hectares in 2000. Preliminary indications are that the 2001 crop will be larger. Opium poppy cultivation totals were not available either for 2000 or for 2001. The densest coca cultivation is in the departments of Putumayo and Guaviare, while most opium is grown in the mountainous regions of Tolima, Huila, Cauca, and Nariño.

United States Government (USG) coca yield and cocaine processing efficiency studies conducted in 1999 confirmed that the typical Colombian cocaine base processor is about 69 percent efficient in extracting alkaloids into cocaine base. This efficiency ratio, combined with crop estimates and leaf yield figures, confirmed Colombia’s potential cocaine base production in 2000 at 580 metric tons. The USG’s 2001 production estimates will be available in early 2002.

Colombia’s heroin production in 1999 was estimated at nearly 8 metric tons. No imagery-based crop estimate was possible in 2000 due to extensive cloud cover. The 8 metric ton figure, however, was based on the best information available at the time. The preliminary results from USG opium poppy yield and heroin processing efficiency studies conducted in 2001 indicate that previous estimates probably overstated Colombia’s potential heroin production capabilities. Revised Colombian heroin production estimates are expected in early 2002.

Colombia accounts for only about two percent of the world’s opium poppy, though nearly all the resulting heroin is destined for the United States. Heroin production in clandestine laboratories in Colombia appears to be limited based on the size of the laboratories seized to date. Laboratory seizures have shown that few such laboratories are capable of producing heroin in large quantities; an average heroin lab will produce one kilogram at a time, though not necessarily on a daily basis.

**Drug Flow/Transit.** Colombia is the center of the international cocaine trade. Colombian traffickers produce large quantities of cocaine base domestically and import it from Peru and Bolivia, then convert it to cocaine HCl at clandestine laboratories.

Colombia’s coastal regions, which extend from Panama to Venezuela in the north and from Panama to Ecuador in the west, continue to flourish as major transshipment points for bulk maritime shipments of cocaine and marijuana. The vast majority of the drugs shipped from the coastal regions originate from

production areas in the south central portion of the country as well as other less prolific growing areas in the northern third of Colombia. Most of the shipments are organized by the well-established trafficking organizations based in Cali, Medellin, Bogotá, and other cities throughout the country.

Fishing vessels transport large quantities of narcotics from Colombia to Mexico and other countries while en route to both United States coasts. They are often loaded/off loaded by go-fast boats operating from secluded coastal areas that rendezvous with the fishing vessels at sea. Fishing vessels have proven themselves to be well-suited for smuggling operations as they have the ability to remain at sea for long periods, transit vast distances, draw minimal attention, and hide among the vast numbers of legitimate fishing vessels.

Go-fast boats transport drugs directly from Colombia to Central America, Mexico, and Caribbean countries. The go-fasts hug the coastline as they move north to secluded off-loading sites, or transit directly to Caribbean islands that serve as transshipment points. Some trafficking organizations use refueling ships that re-supply the go-fast boats on the high seas, especially in the Pacific Ocean.

Commercial cargo ships also transport drugs from Colombia directly to the United States and Europe. The drugs are often hidden in containerized cargo, bulk cargo, or hidden compartments built into the ship, and are loaded/off-loaded both in port and by the use of go-fast boats while at sea. The highly successful U.S.-sponsored Port Security Program, however, appears to have significantly reduced this trafficking method.

In 2000, approximately 59 percent of the heroin seized by federal authorities in the United States—and submitted for DEA Heroin Signature Program analysis—was of Colombian origin. The DEA believes that the bulk of the Colombian heroin destined for the United States is smuggled via couriers on commercial airlines, or, increasingly, as air or maritime cargo. A recent trend is the transport of larger loads, some up to 20-30 kilograms. Most transportation routes stop in Central America, the Caribbean, and/or Mexico, where it is passed to a different courier who completes the delivery into the United States. The primary trafficking routes are through Venezuela, Argentina, Ecuador, Panama, and Mexico. Heroin seizures made by the Colombian National Police, with USG training and assistance, at Bogotá El Dorado International Airport during 2001, indicate that almost all heroin shipments were destined for the United States.

The most common smuggling method in 2001 was concealment inside false linings of clothing (either in luggage or worn by couriers). Other methods are shoes with false bottoms, ingestion, false-sided suitcases, and taping the drugs to the body. Couriers ingesting heroin swallow the drug, which has been compressed into 8 to 10-gram pellets sealed in latex or wax. The weight of the pellets is tailored to the size of the courier, but it is not uncommon for couriers to ingest over one kilogram of heroin.

**Domestic Programs (Demand Reduction).** The National Directorate of Dangerous Drugs (DNE) develops overall drug policy in Colombia, while a program within the Colombian Presidency, RUMBOS, manages prevention and demand reduction programs. RUMBOS was created in 1998 as a response to the growing problem of drug use in Colombia, especially among young males, ages 12-17. It works with other agencies to ensure that adequate treatment is available and directs a prevention/demand reduction program, which provides recreational activities for children and job training to young adults. It also assists departmental governments in creating local prevention programs, with 27 of Colombia's 32 departments now receiving assistance. Its public affairs efforts include counternarcotics billboards, radio and television spots, an Internet site, and a toll free telephone information line. The U.S. provided \$200,000 in assistance to RUMBOS in 2000.

#### IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** The U.S. continues to place its focus on institution building, especially within the law enforcement, military, and judicial systems.

The United States included the AUC (paramilitary organization) on its list of foreign terrorist organizations for the first time in 2001.

**Bilateral Cooperation.** The Department of Justice/Criminal Division coordinates the Justice/Treasury Justice Sector Reform Program in Colombia. USAID has supported several key Plan Colombia initiatives. It coordinates the USG's justice sector reform program in cooperation with the Department of Justice (OPDAT and ICITAP). It has supported the expansion of the "Casas de Justicia" (Justice Houses) program, which provides access to justice for poor and marginalized Colombians. Eighteen "Casas" have been established, which have handled an estimated one million or more cases benefiting more than 100,000 individuals, thus helping relieve the three million-case backlog in the formal judicial system. A total of 40 "Casas" will be established by the end of FY 2005. USAID and DOJ are also assisting Colombia's transition from a mixed inquisitorial/accusatorial system of justice to a more transparent and modern accusatorial one. USAID has trained 3,400 judges in oral trials, legal evidence, and labor procedures and established 13 oral trial courtrooms. DOJ (OPDAT and ICITAP) have trained prosecutors and police investigators in the accusatorial system and oral trials.

USAID works with the GOC in detecting and preventing human rights abuse, protecting human rights workers, and effectively responding to violations. In 2001, USAID worked with the National Ombudsman's Office to develop a human rights Early Warning System (EWS) as a means of preventing forced displacement and massacres, with \$2 million budgeted for this program. In 2001, the EWS central office was established, coordination was begun with police/military and other state actors, and risk assessments conducted in target regions. As of September 2001, 65 alerts were issued and 45 responded to by the GOC in 96 municipalities. USAID has also provided \$610,000 in grants to human rights NGOs.

USAID supports the Ministry of the Interior's Protection Program, which provides communications equipment, bullet proof vests, vehicles, and economic assistance to human rights workers, union leaders, journalists, and members of the Union Patriótica political party (the former political arm of the FARC, for which a GOC decree provides specific entitlement to protection due to its high risk of political persecution and assassination). As of December 2001, 1,253 individuals have received protection. USAID also provides policy support to the Office of the Vice-President (Presidential Program for Human Rights and International Humanitarian Law) in its role as the GOC leader on human rights and civil society issues.

Other new USAID programs focused on democratic local governance, with projects to strengthen the management and administrative capacities of local governments, to improve transparency, and to increase citizen participation, thereby enhancing accountability to citizens. Implementation has begun on 39 social infrastructure projects in Putumayo and Caqueta, and 39 citizen oversight committees have been trained with USAID support. In addition, in conjunction with alternative development activities, over 326 citizens in Caqueta and Putumayo have been trained on how to conduct social audits and use other constitutional mechanisms to oversee public administration practices.

Finally, USAID provides non-emergency support for internally displaced persons (IDPs) and other vulnerable populations, emphasizing the social, political, and economic incorporation of IDPs into mainstream Colombian society through programs and mechanisms at the municipal level. As of December, nearly 300,000 displaced people had received assistance in the areas of physical and mental health, community strengthening, income and employment generation, urban assistance (shelter, water, and sanitation), and education. Further, \$2.5 million is being spent to rehabilitate former child combatants. Over the next five years, these and similar activities will benefit more than 698,000 IDPs.

The U.S.-sponsored Port Security Program is a public-private partnership in which specially trained counternarcotics police carry out inspection and interdiction operations at four ports. Since 1998, port authorities have seized more than 31 metric tons of cocaine and 60 metric tons of marijuana, at very little cost to the USG. The U.S. has allocated approximately \$1,470,000 in "Plan Colombia" emergency supplemental funds for the program, which is being implemented by the U.S. Customs Service (USCS) in coordination with the Justice Sector Reform Program (JSRP) and the Embassy's Narcotics Affairs Section



(NAS). The U.S. Coast Guard is assisting as well. At the request of NAS, the USCS altered their plan to allocate \$1,100,000 for equipment purchases. The plan now consists of port security assessments and on-site advisory programs (which have begun and will continue on a rotating basis throughout 2002), the Industry Partnership Program (IPP) Assistance, and equipment purchases. The CNP, Prosecutor General, and port personnel still need additional training.

In the DOJ/Bureau of Prisons and NAS-sponsored Penitentiary Improvement Program, Picota and Valledupar prisons made significant progress in quality assurance: special aptitude, attitude, and honesty tests have been used when selecting personnel, those personnel received at least 150 hours training, the prisons have the equipment necessary to implement standard law enforcement procedures. Other prisons have been designed, and internal audits have been undertaken in order to identify areas for improvement.

The regular fiscal year appropriation for the Narcotics Affairs Section was \$105 million, with \$12.2 million going to support DIRAN air operations. The DIRAN Air Service consists of 64 helicopters and 23 fixed-wing aircraft. Aircraft are used in a variety of ways: spray planes are used to eradicate coca and poppy cultivations; larger fixed-wing aircraft transport cargo and personnel or perform counternarcotics-related intelligence and surveillance operations; and helicopters are used for transport and interdiction, or to escort and protect spray aircraft during eradication missions.

During 2001, the United States made available two new UH-60 (Black Hawk) helicopters to bring the DIRAN Air Service fleet to a total of eight; ten newly converted (i.e., upgraded from UH-1H) Huey II helicopters; and two C-26B reconnaissance/intelligence airplanes. In addition, the Air Service performed two Huey II conversions on UH-1H helicopters with U.S. funding. The Air Service, which is certified by Bell Helicopter to perform these modifications, is projected to complete three more such conversions in the first half of 2002.

The DIRAN Air Service also began taking strides toward building up its forward operating bases around the country, with the goal of decentralizing its operations and creating a more efficient and flexible response to counternarcotics mission needs. With assistance from the United States, planning has continued apace for the construction of infrastructure at several bases around Colombia. In November, the DIRAN named commanders for the new bases. The United States will install an instrument landing system at two forward bases and a precision approach path indicator at another; these systems will assist DIRAN and armed forces pilots in landing aircraft under difficult weather conditions. In addition, the United States is building a modern fixed-wing hangar at the DIRAN Air Service's El Dorado Base in Bogotá.

The United States made available 15 additional UH-1N helicopters to the Colombian Army early in 2001, bringing the total to 33. The COLAR supported the 33 UH-1N's with crews and mechanics, giving the CD Brigade an air mobile capability unprecedented in Colombia.

To improve maritime interdiction capabilities, the United States supplied a fourth 82-foot patrol boat with associated spare parts and training to Colombia through the Excess Defense Articles program.

**The Road Ahead.** Plan Colombia and the Andean Regional Initiative recognize the interrelated nature of Colombia's counternarcotics efforts and its peace process as well as its relationships with neighboring countries. The greatest challenges in 2002 will continue to be Colombia's three designated terrorist groups, the FARC, ELN, and AUC. These groups control much of Colombia's narcotics production and distribution, reaping enormous profits. An enhanced counter-terrorism program for Colombia in 2002 will reinforce Plan Colombia training efforts already begun, leading to still greater efficiency and professionalism in the Colombian armed forces, prosecutors, and law enforcement agencies.

As the drug profits of the terrorist groups increasingly come under threat by Plan Colombia-related programs, they can be expected to fight back violently, both on the ground and through their supporters in the political arena and in the media. This will call for a broader, intensified counternarcotics effort.

The aerial eradication program will expand in 2002 with the arrival of additional Plan Colombia-funded spray aircraft. The DIRAN, with U.S. support, plans to organize its aerial eradication program into four

Task Groups, each comprised of spray aircraft and escort helicopters, air crews, and a security unit. Two Task Groups will normally operate in southern Colombia. The other two will operate against smaller coca cultivations and opium poppy. The DIRAN also plans to complete the forward basing of two airmobile interdiction companies on the Caribbean and Pacific Coasts, and to construct an Antinarcotics Training Center to replace its Jungle School. The goals for aerial eradication in 2002 are 150,000 hectares of coca and 10,000 hectares of opium poppy. The Colombian military's counternarcotics role will broaden in 2002, as plans to institute a second Counterdrug Brigade progress.

Similarly, U.S.-funded equipment and training programs in the fields of justice and law enforcement begun in mid- and late-2001 should lead to greater professionalization in such areas as port security, prosecutor training, and investigations, which will allow Colombia to deal more effectively with narcotraffickers.

# Colombia Statistics

(1993–2001)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Coca</b>									
Potential Harvest (ha)	TBD	136,200	122,500	101,800	79,500	67,200	50,900	44,700	39,700
Eradication (ha)	TBD	47,000	43,246	—	19,000	5,600	8,750	4,910	793
Estimated Cultivation (ha)	TBD	183,200	—	—	98,500	72,800	59,650	49,610	40,493
HCl: Potential <sup>1</sup> (mt)	580+	580	520	435	350	300	230	70	65
<b>Opium</b>									
Potential Harvest (ha)	TBD	—	7,500	6,100	6,600	6,300	6,540	20,000	20,000
Eradication (ha)	2,583	9,254	—	—	6,972	6,028	3,760	3,906	9,821
Estimated Cultivation (ha)	TBD	—	—	—	13,572	12,328	10,300	23,906	29,821
<b>Cannabis<sup>2</sup></b>									
Potential Harvest (ha)	5,000	5,000	5,000	5,000	5,000	5,000	4,980	4,986	5,000
Eradication (ha)	—	—	—	—	—	—	20	14	50
Estimated Cultivation (ha)	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,050
Potential Yield (mt)	4,150	4,150	4,150	4,150	4,150	4,150	4,133	4,138	4,125
<b>Seizures<sup>3</sup></b>									
Heroin/Morphine (mt)	0.798	0.572	0.504	0.317	0.261	0.183	0.419	0.181	0.261
Opium (mt)	0.002	—	0.183	0.100	0.120	0.036	0.078	0.128	0.261
Cannabis (mt)	80	46	65	69	136	235	166	2000	549
Base/Basuco (mt)	26.70	—	9.00	29.30	10.00	17.50	19.50	32.00	10.40
Cocaine HCl <sup>4</sup> (mt)	57.30	69.00	22.73	54.70	34.00	23.50	21.50	30.00	21.76
Total HCl/Base (mt)	80.00	69.00	31.73	84.00	44.00	41.00	41.00	62.00	32.16
<b>Total Arrests</b>	15,832	8,600	—	1,961	1,546	1,561	1,745	2,154	2,562

<sup>1</sup> Newly acquired data from field surveys has resulted in revised leaf yield and HCl production estimates from 1995 on.

<sup>2</sup> Reported cannabis cultivation has not been confirmed by USG survey.

<sup>3</sup> Seizure data show combined CNP and military figures.

<sup>4</sup> Includes 24 metric tons of cocaine seized in maritime operations.

# Ecuador

## I. Summary

Ecuador is a major transit country for drugs and precursor chemicals. Armed violence on the Colombian side of Ecuador's northern border renders interdiction especially difficult. Police and military forces are working together to improve security and curtail drug trafficking in the border area, and the Ecuadorian government is giving greater attention to drug interdiction. Drug seizures, particularly of heroin, rose sharply in 2001. Ecuador's faulty judicial system and conflicting laws hamper prosecution of criminals. Ecuador has inadequate defense against money laundering. The USG is providing equipment, infrastructure and training to improve counternarcotics performance. U.S.-funded alternative development projects are improving community infrastructure in some of the most threatened northern areas.

Ecuador is a party to and has enacted legislation to implement the provisions of the 1988 UN Drug Convention.

## II. Status Of Country

A small country with three international airports and four major seaports, Ecuador shares porous borders with two of the world's largest narcotics producers: Colombia and Peru. Ecuador's public institutions are weak, corruption is a chronic problem and the financial system is poorly regulated. Entry and exit controls of persons and goods are undependable. A high level of poverty renders much of the population susceptible to illicit activities. Large-scale armed conflict in immediately adjacent areas of Colombia makes Ecuador's control of its northern border difficult. The national police (ENP) and military forces are inadequately equipped and trained to deal with a challenge of this magnitude. The Ecuadorian government (GOE) is very mindful of these deficiencies, but its ability to remedy them is hampered by shortages of resources, know-how and effective legal tools.

Drug traffickers assiduously exploit Ecuador's vulnerabilities. There is no evidence that illicit crops are cultivated to any significant degree in Ecuador, or that there is substantial processing of raw materials into market-ready drugs within the country. However, coca paste and base enter Ecuador from eastern Colombia (east of the Andes) and exit again to western Colombia (west of the Andes) for refinement. Cocaine HCL and heroin from Colombia and Peru are carried to Ecuador's ports for international distribution in volumes ranging from ingested individual loads of a few hundred grams to multi-ton sea shipments. The USG is working closely with the GOE to strengthen security in the northern border region and to interdict illicit drug-related activities. The USG made considerable progress in 2001 on construction of its forward operating location (FOL) at the Ecuadorian air base in Manta.

## III. Country Actions Against Drugs in 2001

Ecuadorian laws implementing the 1988 UN Drug Convention include criminalization of the production, transport, and sale of controlled narcotic substances; the import, transport and/or use of essential chemicals without an appropriate permit from the Ecuadorian national drug council (CONSEP); any attempt to conceal the profits from narcotics trafficking activities; the intimidation or corruption of judicial and public authorities in respect to drug crimes; and illegal association related to drug trafficking and profiteering.

**Policy Initiatives.** The 1999 national drug strategy published by CONSEP details the roles and responsibilities of Ecuadorian government agencies, including the armed forces, in relation to counternarcotics. Although military-police cooperation is a perennial problem in Ecuador, in 2001 the armed forces did support police counternarcotics activities. Military and police forces in the northern

border area were reinforced. Joint military/police task forces commenced operations in the three northern provinces, conducting regular joint patrols, floating checkpoints, and special operations. CONSEP completed the first draft of a revised organic drug law (law 108) to be considered by the legislature in 2002.

The counternarcotics directorate (DNA) of the national police, established in 1999, was increased to 942 members and was given its own line item in the draft 2002 national budget for the first time. Counternarcotics training was incorporated into the basic course for all new police recruits, and counternarcotics was made a distinct career track within the national police. The public prosecutor-general designated specific prosecutors in Quito and Guayaquil to work full-time on drug cases. The Ecuadorian government has completed plans for a national criminal justice university that is to include counternarcotics investigative and forensic schools. Funding for the university must still be identified.

With U.S. assistance, a new ENP cargo inspection facility at Manta port is scheduled for construction in 2002. Planning is underway for similar facilities at the major seaports of Machala and Esmeraldas, and for improvement of the inspection facilities in Guayaquil port. The national police intelligence data network linking the ENP's maritime cargo information center (SIPA), Ecuadorian customs, and key ENP offices is being strengthened and expanded.

**Law Enforcement Efforts.** Violence stemming from narcotics-related guerilla and paramilitary activity in southern Colombia continues to impact heavily on Ecuador's northern border area and makes the job of drug interdiction more difficult. Police working in the border area are subject to targeted attack; three were murdered in two attacks in Sucumbios province in the second half of the year, apparently in retaliation for their official acts. The special mobile counternarcotics group (GEMA) headquartered at Baeza was very active and effective throughout the northern region. Seizures of refined drugs rose substantially in 2001, probably reflecting both greater police effectiveness and a greater volume of drugs in transit. Cocaine HCL seizures rose from 1.72 metric tons in 2000 to 10.92 metric tons in the first 11 months of 2001. A disturbing trend is the sharp (over 100 percent) increase in heroin seizures for the second straight year, from 110 kilograms to 253.62 kilograms. Cannabis and coca base seizures declined. At year's end, a concerted campaign by the ENP and CONSEP in Sucumbios province brought significant seizures of illicit precursor chemicals and pointed out some shortcomings in CONSEP's regulatory regime, which will be corrected. Ecuador's imprecise, sometimes contradictory laws and undependable judicial system are not conducive to consistently effective prosecutions. The promulgation of a new code of criminal procedure in 2001 with inadequate advance preparation added an additional element of confusion to the law enforcement environment. Law enforcement and judicial authorities are trying urgently to gain control of this situation with the help of outside training and technical assistance from the U.S., UNDCP and others. The revised comprehensive counternarcotics law, when adopted, promises to correct major shortcomings of existing legislation.

**Corruption.** Ecuadorian government policy opposes the illicit production or distribution of drugs or other controlled substances, as well as the laundering of drug money. The 1990 drug law (law 108) provides for prosecution of any government official, including a judge, who deliberately impedes the prosecution of anyone charged under that law. A prominent case of alleged narcotics corruption was revealed late in 2001 when a national police investigation implicated General Abraham Correa, chief of police intelligence, in being associated with an accused drug trafficker. Allegations and charges against Correa have been widely publicized by the state prosecutor's office. Four lower-ranking members of the ENP are also accused of involvement in the trafficker's illicit activities. The highest officers of the ENP have publicly vowed to punish any ENP member found guilty of improper activities.

**Law Enforcement Cooperation.** In general, Ecuadorian law enforcement agencies cooperate well with U.S. and other foreign law enforcement agencies. Cooperation is improving steadily as the training of Ecuadorian personnel progresses. There are occasional delays in obtaining Ecuadorian government permission to board and seize Ecuadorian vessels engaged in illicit activities at sea. The USG and the GOE continue to strengthen their law enforcement relationships, develop information-sharing conduits,

and bolster interdiction cooperation. Cooperation between the USG and GOE in 2001 resulted in several successful drug interdiction operations and the dismantling of some international trafficking organizations.

**Arrests and prosecutions.** On November 26 the ENP arrested Jorge Hugo Reyes Torres, Ecuador's most notorious drug boss who was released from prison in February 2001 after serving more than eight years for drug trafficking. He is accused of being involved with his brother Ramiro in exporting 500 kilograms of cocaine monthly, chiefly to Spain. Although no drugs were found in Reyes Torres' possession, the ENP recovered about 76 kilograms of cocaine when Ramiro Reyes Torres and several other alleged gang members were arrested earlier the same day. The police claim to have good evidence implicating Jorge Reyes Torres in the operation.

There were no successful cases in 2001 specifically involving the financing of drug operations, although in the second half of the year the GEMA seized smuggled U.S. currency totaling over \$1.5 million that is believed to have been related to drug sales.

**Agreements and Treaties.** The U.S.-Ecuador extradition treaty is outdated, although it was used successfully in 2001 to extradite an Ecuadorian fugitive from the U.S. to Ecuador. There have been some preliminary talks about its possible revision or replacement, but no progress appears likely until the issue of extradition of nationals is resolved. The Ecuadorian constitution prohibits the extradition of Ecuadorian nationals. Ecuador is a party to the 1988 UN Drug Convention and has a narcotics law that incorporates its provisions. The USG proposed a maritime counternarcotics bilateral agreement in 1994 pursuant to the provisions of the 1988 UN Drug Convention, but little progress has been made in discussing such an agreement. Ecuador is also a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Ecuador signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants on December 13, 2000, and it signed the protocol against the Illegal Manufacturing of and Trafficking in Firearms on October 12, 2001. Ecuador is also a party to the Inter-American Convention against Corruption and in 2001 signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention.

The GOE agreed in 1999 to permit the USG to operate a forward operating location (FOL) at the Ecuadorian air force base in Manta. The FOL is used for counternarcotics surveillance.

The GOE is a strong supporter of regional cooperation and has signed bilateral counternarcotics agreements with Colombia, Cuba, Argentina and the U.S., as well as the Summit of the Americas money laundering initiative. Ecuador is a member of the Inter-American Drug Abuse Control Commission (CICAD) and has signed the OAS/CICAD document on a counternarcotics hemispheric 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 met the requirements of annual agreements with the U.S. concerning the provision of assistance for anti-narcotics activities. In 2001, the government provided space to improve or create new cargo inspection facilities at the major seaports with U.S. assistance and funding. Space has also been provided to upgrade and increase the number of highway checkpoints in the northern border region. The U.S. and the GOE are discussing measures to improve Ecuadorian controls over the entry and exit of persons, strengthen safeguards against terrorism and illegal migration and help in counternarcotics interdiction.

**Cultivation/Production.** Joint police/military patrols, including 20 special targeted missions based on imagery analysis, found only three sites with a combined total of 5.5 hectares of cultivated coca in Sucumbios province in 2001. The crops were eradicated in the presence of a public prosecutor as the law requires. Judging from experience to date, coca cultivation is not currently a significant problem in Ecuador. Ecuadorian authorities found and destroyed four cocaine HCL laboratories of small to moderate

size this year. The absence of large operational laboratories indicates that cocaine HCL production is not substantial in Ecuador, although existing conditions suggest that this is a potential future threat.

**Precursor Chemical Control.** Law enforcement officials generally believe that the illicit traffic in chemicals in Ecuador is greater than indicated by the relatively small volume of chemicals seized. In 2001 a large seizure of solvent diverted directly from an Ecuadorian state petroleum refinery pointed to the need for greater control over in-country precursor production. It also revealed that the government's controlled chemicals list is outdated and inadequate. The USG, UNDCP, and other cooperating governments are increasing their training and technical assistance efforts in this area. Ecuador continues to meet the objectives of the 1988 UN Drug Convention, and has signed a cooperative agreement with the EU. At times, however, CONSEP does not place enough emphasis on conducting evaluations in a timely manner, particularly with respect to cooperation with priority queries from other countries.

The USG and the GOE have signed an agreement in which DEA notifies CONSEP in advance of pending chemical shipments. These notices are then passed on to port inspectors, who readily seize all controlled chemicals which enter the country without proper documentation or when the quantity surpasses that which was authorized by CONSEP. Both CONSEP and police records are available to the DEA as they relate to narcotics or controlled chemical seizures.

**Demand Programs (Demand Reduction).** The most recent comprehensive national survey of drug use in Ecuador, in 1998, revealed that four percent of the respondents admitted having used illicit drugs at least once in their lifetimes. Prevention of domestic drug abuse is an integral element of the Ecuadorian government's drug strategy. National prevention activities are conducted primarily through the schools and supported by foreign donors. In 2002, the Ministry of Education budget will provide for an expanded prevention program funded with GOE revenues. All public institutions, including the armed forces, are required to have abuse prevention programs in the workplace. The national police have ordered materials to begin random drug testing of ENP personnel.

**Regional Coordination.** Ecuadorian security officials in Sucumbios province hold periodic coordination meetings with their counterparts from neighboring, strife-ridden Putumayo Department in Colombia. The Ecuadorian police are developing operational and intelligence communications plans that provide for compatibility with other police agencies in the region to facilitate a rapid exchange of information.

**Alternative Development.** In 2000, the GOE created a new agency for northern border development (UDENOR) to coordinate economic and social development programs in the country's most vulnerable region, where central government presence and attention historically have been slight. UDENOR is active in seeking donor assistance for the government's four-year, \$465 million northern development master plan. The plan aims at "preventive" rather than "alternative" development, since illicit crop cultivation is not currently significant in the area but is a severe problem in the immediately adjacent region of Colombia.

## IV. U.S. Policy Initiatives and Programs

U.S. counternarcotics assistance to Ecuador aims at improving the professional capabilities, equipment and integrity of police, military and judicial agencies to enable them to counter illicit drug activities more effectively. An initiative begun in 2001 seeks to strengthen the security of the northern border region. Ecuadorian army units in the northern border area are being supplied with tactical radio communications and ground vehicles. A new, major police base will enable the ENP to maintain greater presence in Sucumbios province.

U.S.-funded alternative development programs are working to improve basic infrastructure in poor communities in the northern border area. A larger, follow-on program, to begin in 2002, will include substitute crop development projects, additional infrastructure work, and work on strengthening democratic institutions in the northern provinces.

In 2001, the USG provided joint training in the U.S. for 30 police and military personnel in counternarcotics operations. A six-month program in 2001-2002 is developing an investigations training curriculum and is “training trainers” for the judicial police. U.S. military and customs teams trained the special mobile counternarcotics group (GEMA) in highway and field interdiction and inspections. These kinds of training are planned to continue and to expand in following years.

Police seaport inspection facilities and highway checkpoints, constructed and improved with U.S. assistance, enhance police capabilities to interdict drug shipments in transit. An improved intelligence data communications network and upgraded radio communications accelerate access to and exchange of essential information among police units.

All initiatives and strategies are jointly planned and coordinated with the GOE and are formalized in annual letters of agreement under which the USG grants assistance to the GOE.

**The Road Ahead.** The USG will seek improved performance in military/police collaboration, seaport control, and highway interdiction through the provision of expanded training and essential infrastructure and equipment. U.S. assistance programs for drug interdiction, security and alternative development will target the northern border. Increasing emphasis will be given to the prevention of money laundering and the interdiction of illicit chemical precursors.



*Ecuador Statistics**(1993–2001)*

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Seizures</b>									
Cocaine (mt)	10.92	1.72	9.24	10.770	2.160	9.800	4.400	2.186	1.039
Base, paste (mt)	1.32	1.60	0.93	0.690	1.605	0.530	0.250	0.192	0.335
Cannabis (mt)	3.08	18.26	2.98	17.730	0.022	0.200	0.200	0.131	0.183
Heroin (mt)	0.25	0.11	0.08	0.053	0.034	0.070	0.053	0.024	0.027
<b>Labs Destroyed</b>									
Cocaine	4	0	2	2	0	1	0	0	0
<b>Arrests/Detentions</b>									
Nationals	2,188	2,532	3,567	3,596	3,346	2,075	1,858	2,872	2,775
Foreigners	469	434	267	292	346	204	2,214	201	213
<b>Total Arrests</b>	<b>2,657</b>	<b>2,966</b>	<b>3,834</b>	<b>3,888</b>	<b>3,692</b>	<b>2,279</b>	<b>4,072</b>	<b>3,073</b>	<b>2,988</b>

# Paraguay

## I. Summary

In 2001 the Government of Paraguay (GOP) continued to improve its anti-narcotics capabilities while transit of Andean cocaine through Paraguay increased. The GOP's Anti-Narcotics Secretariat (SENAD) continued to work closely with DEA and formed a new unit, the Chaco Mobile Enforcement Team (CMET), to disrupt cocaine transit operations in Paraguay's sparsely populated Chaco region. The SENAD's Major Violators Unit (MVU) carried out several successful operations to disrupt cocaine networks, resulting in the arrest of a prominent drug kingpin. There was a slight increase in cocaine seizures over 2000 levels. The pertinent committees of the Chamber of Deputies approved legislation, which the Senate had previously passed, to modernize Paraguay's anti-narcotics law. The Chamber will debate and vote on the bill in the next session of Congress in March 2002. Paraguay, as a principal money laundering center, undertook anti-money laundering initiatives, particularly in the wake of the September 11 attacks, but did not successfully prosecute any money laundering cases. (A full discussion of this aspect of the counternarcotics effort is presented in the INCSR chapter on Money Laundering and Financial Crimes.) There was little progress against official corruption and judicial cooperation remained weak. Paraguay is a party to the 1988 UN Drug Convention.

## II. Status of Country

Paraguay is a transit country for between 40 and 60 metric tons of Colombian, Bolivian and Peruvian cocaine that traverses its territory and is destined for Argentina, Brazil, the U.S., Europe, and Africa. The CMET was specifically created to target the cocaine that transits by land, river and air the vast Chaco area with its undeveloped land border, extensive river networks, and numerous registered and unregistered airstrips. Paraguay is a source country for high-quality marijuana that is not trafficked to the U.S.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The SENAD chief, appointed in 2000, took active measures to rid the SENAD of those suspected of links to narcotics and other illegal activities, including the head of DINAR, the SENAD investigations unit. He also fired three officers for alleged embezzlement of confiscated contraband dollars. The three face criminal prosecution in Paraguayan courts. The clean up at SENAD, together with the capture of convicted Brazilian drug lord Leomar de Oliveira Barbosa, have earned SENAD the respect of many in the Paraguayan Congress. The Congress not only voted a large supplemental budget package for the SENAD in the third quarter, to restore funds cut from the budget earlier in the year, but also increased its budget allocation for 2002. The SENAD was also rated as one of the most well-organized and effective anti-narcotics forces in the region by the U.S. commander of a Joint-Combined Training Exercise (JCET) held in 2001. The Chamber of Deputies voted out of committees a comprehensive modification to the existing anti-narcotics law, which will grant long-sought authority to use informants and to conduct undercover operations and controlled deliveries. Once approved by the Chamber, projected by March 2002, the legislation will clear the Congress and will enhance the SENAD's ability to successfully investigate and prosecute major drug traffickers. SENAD, in conjunction with the OAS, conducted a seminar on ways to enhance law enforcement capabilities in Paraguay.

**Accomplishments.** The most significant counternarcotics achievement in 2001 was the arrest of Leomar de Oliveira Barbosa in Capitan Bado. The operation was carried out by SENAD and DINAR in collaboration with the Brazilian Federal Police. Barbosa was rendered to Brazil for trial, while six of his associates were arrested and will be tried in Asuncion. Also, with the cooperation of the Brazilian Federal

Police, the SENAD carried out a disruption operation in mid-February against remnants of the Da Costa “Biera Mar” trafficking organization in Pedro Juan Caballero, resulting in the seizure of an airplane used to ferry cocaine and the arrest of the pilot, a known narcotics pilot with an outstanding arrest warrant in Brazil. In May, an intensive surveillance operation resulted in the arrest of four Paraguayan cocaine smugglers at the Asuncion airport. In June, two Paraguayan women trafficking cocaine on a cross-border bus were arrested. All six were prosecuted and jailed for trafficking in narcotics.

**Law Enforcement Efforts.** Noteworthy judicial counternarcotics decisions were reached in 2001. In February, a Paraguayan judge in Pedro Juan Caballero issued an arrest warrant against Luis Fernando da Costa Silva (“Biera Mar”). It was the first time that a judge had issued a warrant against a major trafficker. Also in February, an Asuncion judge sentenced two traffickers to 20 years in jail for possession of 36 kilos of cocaine. The two were co-defendants with Nestor Baez, who was arrested for cocaine possession in 1998, but was released in 2000 in a highly irregular decision by a holiday judge that drew national and international condemnation. In March, an appeals court upheld the four-year sentence imposed on Colombian national Fausto Rodriguez for possession of false identity papers. Rodriguez was arrested in 2000, and SENAD officials believe he was involved in a cocaine-for-weapons exchange between the Colombian FARC and Paraguayan and Brazilian drug trafficking groups. Up to December 2001, the SENAD had seized 104 kilos of cocaine, which slightly exceeded 2000’s seizures of 97 kilos. Given the significantly increased amount of cocaine flowing through Paraguay, this effort needs improvement. The GOP also seized 83,029 kilos of processed marijuana and destroyed 938 hectares of marijuana fields, equivalent to 2,345,000 kilos of planted marijuana. A total of 242 individuals were arrested. Asset seizures were minimal.

**Corruption.** The GOP recognizes corruption as a public policy challenge, but, with the exception of actions taken by the SENAD chief, it has not taken sufficient measures to prevent or punish public corruption in general, or specifically with respect to narcotrafficking or money laundering. The USG remains concerned that reportedly corrupt police officials remain in key posts and are in positions to give protection to, or compromise law enforcement actions against narcotics traffickers.

Law 1340 subjects public officials who engage in narcotics-related offenses to the maximum applicable penalties. While no current public officials were tried under this law in 2001, the Supreme Court suspended Asuncion circuit judge Ruben Dario Prutos for improperly releasing from jail two European nationals who had been sentenced to ten years imprisonment for cocaine possession.

**Agreements and Treaties.** The new U.S.-Paraguay Extradition Treaty entered into force on March 9, 2001, and it permits the extradition of nationals. Paraguay is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. It has ratified the OAS Convention on Corruption, signed the OAS/CICAD Hemispheric Drug Strategy, and agreed to the Declaration of Principles and plans of action adopted at the Summit of the Americas and at the 1995 money laundering ministerial. In December 2000, Paraguay signed the UN Convention against Transnational Organized Crime and its Protocol to Prevent, Suppress and Punish Trafficking in Persons. It has law enforcement agreements with Brazil, Argentina, Chile and Venezuela. The 1987 bilateral letter of agreement, under which the U.S. provides counternarcotics assistance to Paraguay, was extended in 2001.

**Cultivation/Production.** Marijuana is the only illicit crop cultivated in Paraguay, and it is harvested throughout the year. Driven by a worsening economic situation and the relatively high price paid by traffickers for cultivation, marijuana production has increased, spreading to non-traditional areas such as the Department of Itaipua. SENAD estimates that 3,000 hectares (an increase of 500 hectares from 2000) were dedicated to the cultivation and production of marijuana in 2001.

**Drug Flow/Transit.** U.S. law enforcement officials estimate that approximately 40-60 metric tons of Colombian, Bolivian, and Peruvian cocaine transit Paraguay annually. This represents a significantly higher estimate than reported last year due to increased intelligence capabilities of U.S. law enforcement, host

government operations in the interior of Paraguay, and more information coming in from Brazilian sources.

**Demand Reduction Programs.** The increased marijuana production in Paraguay has led to a noticeable rise in substance abuse. Supported by funds from the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL), the SENAD's Office of Demand Reduction does a significant amount of outreach work, primarily in schools. The SENAD has the principal coordinating role under the National Program Against Drug Abuse, and works with the Ministries of Health and Education and several NGOs.

**Chemical Control.** Paraguay's regulations require SENAD-issued permits for the importation of precursor chemicals, but in practice these regulations are not adequately enforced. There are no laws or regulations regarding the end use of these chemicals.

### IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** The disruption of narcotics trafficking through training and equipping of an effective investigative and interdiction force, a strong GOP institutional effort against money laundering, and a decrease in public corruption continue to be USG's priorities in Paraguay. To accomplish these goals, the USG will support further professional development of the SENAD Major Violators Unit (MVU) and CMET, providing for a more effective counternarcotics and organized crime investigative and operational capability from the Chaco in the west to the eastern border areas. The U.S. worked closely with Paraguayan senators for seven years on legislation authorizing the use of informants, controlled deliveries and undercover operations, and other law enforcement tools, and spoke with key deputies in the Lower House to urge swift approval of the legislation. Similar legislation was approved by the Lower House of Congress in November for counter-terrorist police authorities.

DEA continues to work with the SENAD, providing guidance on operations and investigations. INL provided equipment and training support to SENAD, including a contraband detector unit, vehicles and motorcycles, police surveillance equipment, body armor vests and other police-related clothing and gear, an electric power generator, and a handheld scanner. INL also provided funds for the purchase of additional drug-detector dogs and training of dog handlers, and a large number of field radios and radio equipment. Ten SENAD officers participated in an Office of Defense Cooperation (ODC)-sponsored Joint Combined Exercise for Training (JCET) exercise on demand reduction efforts. ODC also sent officers and special agents to a United Counter Drug Conference on the topic of regional counternarcotics coordination sponsored by the U.S. Southern Command. INL provided SEPRELAD, Paraguay's anti-money laundering secretariat, with computers, office equipment, video projectors, a photocopier, and other office supplies to aid in the processing of suspicious financial activity reports. INL funded travel for SEPRELAD's Executive Director to attend a conference in Chile, a joint INL meeting with the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) in Washington, and a meeting of the Egmont Group in The Hague. A January 2002 DEA training course helped the SENAD to solidify the CMET and improve its operational capabilities.

**The Road Ahead.** Passing the new anti-narcotics legislation will expand the GOP's ability to crack down heavily on narcotics transportation networks. The implementation of the new law and consolidation of the CMET will likely lead to more investigations against major cocaine traffickers, increased drug seizures and arrests, and successful prosecutions. Full implementation of all provisions of the anti-money laundering and anti-narcotics law will significantly enhance the GOP's ability to punish and prevent official corruption. In addition, GOP refocusing of SEPRELAD into a more effective and efficient organization, and providing it with greater independence and a new bureaucratic structure more compatible with its mission are critical steps to ensuring SEPRELAD's success. The USG will continue to strengthen the SENAD's anti-narcotics investigative and operational units, as well as SEPRELAD's Financial Analysis Unit, through training, technical assistance, and equipment donations.

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# Peru

## I. Summary

Once the world's leading cultivator of coca leaf, Peru now ranks second in production after Colombia. While 115,000 hectares of coca were measured in 1995, manual eradication by the Government of Peru (GOP) and law enforcement-induced abandonment of cultivation by coca-growers (cocaleros) over the past six years has left approximately 34,000 hectares of coca. The bulk of this cultivation is concentrated in the Huallaga and Apurimac/Ene Valleys. However, record price levels for coca in these areas during 2001 is endangering the progress made since 1995. Moreover, reports of poppy cultivation are increasing at an alarming rate, as well as Peruvian seizures of opium derivatives. Imported designer drugs such as MDMA (Ecstasy) are also available in Peru, especially to upscale youth in the major cities.

In 2001, despite a changing political environment, including a new government, work stoppages, general strikes, and scattered protests, Peru made progress on counternarcotics issues consistent with its status as a party to the 1988 UN Drug Convention. Major accomplishments included the signing of a U.S.-Peru extradition treaty in July 2001, raising judicial salaries by 80 percent to attract qualified candidates and reduce susceptibility to corruption, manually eradicating 6400 hectares of coca, and continuing to seize and destroy cocaine and cocaine-processing labs. In 2001, the value of licit crops also exceeded the value of drug cultivation in key coca areas as a result of U.S.-supported GOP alternative development initiatives. Less encouraging were declines in the amount of cocaine base and chemicals seized, indications of Shining Path (Sendero Luminoso) terrorist activity in some drug cultivation areas, legislative delays in providing the drug czar with authority over all GOP counternarcotics activities, and lack of legislation on penalties for controlled chemicals, and lack of regulations for asset seizure and forfeiture initiatives. The aerial interdiction program, which contributed to the dramatic coca reduction of the mid-1990s, was suspended after the tragic deaths of two American citizens in a shootdown of a U.S. missionary aircraft mistaken for a drug plane in Peru on April 20, 2001.

## II. Status of Country

On July 28, 2001, the democratically elected government of Alejandro Toledo replaced the Paniagua transition government established following the flight of former President Fujimori in November 2000. Presidential campaigning diverted attention and resources from counternarcotics activities during the early part of 2001. President Toledo used his inaugural address to label narcotics trafficking a Peruvian national security problem, and promptly established and filled the cabinet-level position of drug czar. During 2001, the Peruvian congress remained focused on uncovering and investigating corruption. Many former officials of the Fujimori government, including the former attorney general, de-facto security advisor, and several high level military officials have been incarcerated while awaiting trial on charges of corruption, illegal enrichment, and money laundering.

The price of illicit coca leaf remained high during 2001, possibly in response to coca leaf shortfalls in Bolivia, and unmet demand in Colombia. The GOP succeeded in eradicating 6,400 hectares of coca, mostly in the Von Humboldt National Forest of the Huallaga Valley. GOP sources indicated that drug traffickers continued to move cocaine-derivatives out of Peru via air, river, land and sea routes to Bolivia, Brazil, Colombia, Ecuador, and Chile. Maritime transport increased in 2001, with more drugs leaving Callao, Chimbote, and other ports for Europe. Interdiction was hampered by an increase in the number of individuals or small groups, commonly referred to as "ants," who carry 5, 10, or 30 kilograms at a time to collection points near the border and on international flights. Drugs were concealed among papaya, molded into oranges or wine bottles, sealed into commercial fruit cans, and stuffed into hollowed-out car panels. Peruvian police, coast guard, and customs officials are proficient at detecting such shipments on the road or river, but such interdiction is tedious and time-consuming. Peru is not a producer of precursor

chemicals; chemicals are imported and then diverted from legitimate use. The Peruvian National Police Chemical Division (DICIQ), cooperates with five other countries in the region to seize and destroy such chemicals.

A cause for concern is the increase in poppy cultivation and opium latex production. Poppy cultivation is illegal, and the new Peruvian drug czar, Ricardo Vega Llona, has made it a high-priority issue. Colombian narcotraffickers supply Peruvian farmers with seeds from Colombian poppies, offering technical assistance and cash loans. Limited reporting indicates that the opium poppy plant cultivated in Peru has larger bulbs than the poppy grown in Colombia. However, no crop yield or processing efficiency studies have been conducted to determine Peru's potential opium latex production.

The GOP and the U.S. believe that the Shining Path (SL) continues to be involved in protection of coca crops and possibly narcotics production and trafficking. For example, on August 7, a joint DINCOTE(counterterrorism police)/DIRANDRO (drug police) patrol was ambushed near Mazamari by alleged SL elements. Four officers were killed and three wounded.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Since taking office July 28, the Toledo government has restructured the drug czar's office (CONTRADROGAS), established the ministerial rank for the czar, and improved overall counternarcotics coordination to alleviate disconnects between interdiction, alternative development, eradication, and added additional ministries to the Peruvian counternarcotics effort. The drug czar has directed all agencies to produce annual action plans, and intends to coordinate all requests for donor assistance through his office. CADA, the GOP drug crop measuring and monitoring agency, was instructed to search for and measure poppy cultivation, which it has now begun.

Peru has long recognized the need for Andean nations to regionalize their counternarcotics efforts, and has taken the lead in organizing regional riverine and road interdiction training, as well as alternative development coordination and regional police training. As part of this regional effort, Peru hosted two international training courses in 2001. On September 28, 35 students from 13 countries of the Western Hemisphere graduated from the first regional precursor chemical course in Lima. On December 18, two students from Ecuador and two from Venezuela graduated from the first regional riverine school training course in Iquitos.

**Accomplishments.** CORAH, the GOP coca eradication agency, manually eradicated 6,400 hectares of coca in 2001, which was double the amount projected. The relatively low amount eradicated was due to an agreement reached between the transition Paniagua government and cocalero representatives, which called for eradication in the main coca-growing valleys to be limited to protected areas (national parks). The Toledo government has chosen to honor that agreement, but has also approved eradication of new coca plants and of coca cultivated in the area around maceration pits. The 2002 Eradication Plan, still undergoing the GOP approval process, will expand eradication in protected areas, around maceration pits, labs and new areas of growth.

In 2001, CADA (the Ministry of Interior mapping and measuring agency) began mapping opium poppy cultivation to determine the extent of the problem. Because of weather and terrain problems, additional resources and technology will be required to pinpoint cultivation areas. CADA had also begun to survey farms in the Huallaga Valley to collect agricultural and socioeconomic information to assist the GOP in negotiating additional coca reductions.

**Production.** Cocaine base laboratories are located east of the Andes, and cocaine hydrochloride laboratories operate both east and west of the Andes. Locations near the coast facilitate maritime shipment, while those near Peru's eastern border facilitate air transport to Brazil, Ecuador, Colombia, and Bolivia. Although the overall quantity of drugs seized in 2001 represented a second consecutive annual decline, the police destroyed a record 71 labs. The police did not find any opium latex or morphine laboratories in 2001, but judging from the increase in opium poppy plants found and eradicated, an

increasing amount of opium latex is being produced. Several Colombians were arrested in the Huallaga for drug trafficking, and \$300,000 in Colombian currency was seized.

**Law Enforcement.** DIRANDRO continued running an advanced training center at the Santa Lucia counternarcotics base for special counternarcotics operations. The DIRANDRO unit at Lima's Jorge Chavez International Airport arrested 125 passengers attempting to body-carry more than half a ton of cocaine to the U.S. and other international destinations in 2001.

DIRAVPOL, the Aviation Police, continued providing counternarcotics support to DIRANDRO operations in 2001. It expanded its support by establishing a counternarcotics unit at the counternarcotics aviation base at Pucallpa, and augmented the

USG-provided UH-1H helicopters with its own MI-17 heavy lift helicopters to assist with eradication and interdiction.

In cooperation with U.S. and Peruvian law enforcement agencies, private shipping companies in Peru have improved their abilities to monitor sea cargo containers. In 2001, they provided Peruvian police and customs officers with information to support investigations of major Peruvian and other international trafficking organizations utilizing sea cargo containers to transport large shipments of cocaine to the U.S., Mexico, and Europe. Since Peruvian ports are scheduled to be privatized in 2002, it will become possible to emulate Colombia's fee-supported port security program.

The GOP is successfully managing the Joint Peruvian Riverine Training Center (JPRTC), which has already hosted international students. Operationally, DIRANDRO and the Peruvian Coast Guard are working together effectively and continue to develop and share intelligence targeting known traffickers.

Peruvian law requires that a prosecutor be present when police operations are carried out. Seven prosecutors were added in 2001 for a total of 14 narcotics prosecutors with national jurisdiction. The GOP intends to add several more in 2002.

**Alternative Development Program (AD).** The AD program strengthens local government, provides access to basic services, and thus promotes sustainable, licit economic alternatives to coca cultivation. In 2001, the GOP, supported by the U.S. Agency for International Development (USAID), focused 70 percent of its development efforts in two main coca producing valleys—the Huallaga and Ene-Apurimac River Valleys—and 30 per cent in areas where coca has declined, but could re-emerge if the licit economy is not sustained. Continuing high coca prices, combined with historic lows of international market prices for two key AD crops, coffee and cacao, forced down the ratio of licit agricultural production to coca production for the second year, despite an increase in the area of licit crops. Notwithstanding the unfavorable macro-economic context notwithstanding, the AD program is making a significant positive impact. The AD program assisted 13,000 farm families to produce and market alternative crops, and over 5,000 clients received microcredit loans, an increase of almost 50 per cent from 2000. The farm-gate value of licit crops surpassed the value of coca in three coca areas in which AD has been active (Central Huallaga, Pichis-Pachitea and Aguaytia).

**Corruption.** Although some members of the previous Fujimori government are under investigation for narcotics-related corruption, it is not GOP policy to 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. There is no evidence that any senior official of the Toledo government engages in, encourages, or facilitates the illicit production or distributions of such drugs or substances, or the laundering of proceeds from illegal drug transactions. On December 15, the Minister of the Interior announced the retirement of over 500 police officials, in part to root out corruption.

**Agreements and Treaties.** The GOP strongly supports the objectives of the 1991 USG-GOP counternarcotics bilateral framework agreement currently in force, and the 1988 UN Drug Convention, to which Peru has been a party since 1992. Peru is also a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 protocol thereto, and the 1971 Convention on Psychotropic Substances. There is also an agreement between the U.S. and Peru under which the two countries exchange information

concerning large cash transactions. In July, an updated bilateral extradition treaty was signed, which includes a provision for the extradition of nationals. On December 14, 2000, Peru signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. Peru is also a member of the Inter-American Drug Abuse Control Commission.

**Demand Reduction.** A cadre of large and small nongovernmental organizations (NGOs) cooperates with CONTRADROGAS to address the problem of drug consumption. The most recent survey concerning drug use in urban areas conducted by CEDRO, a leading NGO, revealed that the percentage of people who have used marijuana at least once rose from 4.9 percent in 1998 to 7.1 percent or 1,272,300 individuals, between 1998 and 2001. One-time users of cocaine doubled from 1.3 per cent to 2.6 per cent, or 466,000 individuals. Many Peruvians now consider drugs to be one of the greatest threats facing Peru. A private sector group “Alianza para un Peru sin Drogas” (“Alliance for a Drug-Free Peru”), founded in 1999, and modeled on the U.S. “Partnership for a Drug-Free America” and similar Latin American initiatives, was active in developing TV spots and other prevention messages aimed particularly at children. Treatment for drug addiction is generally carried out by independent treatment organizations commonly called “therapeutic communities.” Programs also exist in major hospitals.

### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** The FY 2001 State Department budget for counternarcotics in Peru was \$48 million, of which \$25 million was for alternative development programs. Other projects supported by the bilateral agreement are counternarcotics aviation support, law enforcement, demand reduction, riverine, policy development, and eradication.

**Support to Law Enforcement.** In 2000, the U.S. supported a change to the GOP counternarcotics strategy, focusing attention on the main coca-producing valleys, or source zones of Peru. These source zones are where illicit coca and poppy are produced, initial processing is carried out and into which precursor chemicals and money flows to support narcotics trafficking. The goal is to interdict drugs at or near their point of origin.

At Jorge Chavez Airport, U.S.-trained dogs were used to detect drugs on passengers and in airplane baggage compartments in 2001. A U.S.-provided X-ray machine aided airport authorities in detecting the illegal transportation of cocaine. U.S. law enforcement agencies have, through extensive classroom and on-the-job training, improved GOP abilities to gather/share intelligence and to conduct long-term and complex investigations.

In late 2001, the DEA sponsored a Chemical Training Conference in Lima, attended by 35 participants from 14 Western Hemisphere countries. The students received advanced training in precursor chemical investigations. The DEA works closely with the DICIQ, the chemical police, on multinational chemical operations.

The GOP and the U.S. have worked closely on eradication programs. Fourteen US-owned helicopters are flown and maintained by the GOP to provide transportation for coca eradication and interdiction. Current Peruvian helicopter pilots and mechanics were trained in the U.S. Under a new agreement, training is now being carried out by the Peruvian Air Force.

The U.S. Army Corps of Engineers recently completed major construction at the counternarcotics helicopter base in Pucallpa, including a command and control facility to support stepped up operations in the main valleys. The DIRANDRO riverine operations facility at Sinchicuy, outside of Iquitos, is nearing completion.

**Eradication.** The U.S. supports the manual eradication program carried out by the Ministry of Interior agency, CORAH, including police protection for the manual eradication laborers. Notwithstanding police support, eradicators on several occasions have been forced by angry mobs to leave eradication sites.



**Support to Alternative Development.** Besides providing the bulk of assistance to the GOP alternative development effort, USAID is helping families diversify agricultural production, including banana, pineapple, and palm heart for former coca growers. AMRESAM, the Association of Municipalities of San Martin, successfully completed a large number of schools, health clinics, small roads, and irrigation projects. A number of major infrastructure activities, including electrification systems and engineering studies for bridges were supported. An emergency program to help poor families affected by eradication activities provided essential health and nutrition services to 4,500 families.

To build public consensus in Peru and abroad, the U.S. recently launched a policy initiative emphasizing environmental damage caused by the drug trade. Damage is caused by deforestation (more than 2.3 million hectares), the application of 500 metric tons of pesticides annually, and release of over 6,000 tons of toxic chemicals annually into the environment.

There are two components to the initiative: research (on chemical use by coca farmers and its impact on water quality, and on contamination of the Peruvian rainforest), and outreach, to increase public awareness. The U.S. is working with the media and environmental NGOs to focus attention on this issue.

The U.S. recently hired an information and communications specialist to design educational and public relations programs in conjunction with Peruvian counterparts. This coordinated effort should lead to better understanding of and support for anti-narcotics efforts, both within and outside the GOP.

# Peru Statistics

(1993–2001)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Coca</b>									
Net Cultivation (ha)	34,000	34,100	38,700	51,000	68,800	94,400	115,300	108,600	108,800
Eradication (ha)	3,900	6,200	13,800	7,825	3,462	1,259	0	0	0
Cultivation (ha)	37,900	40,200	52,500	58,825	72,262	95,659	115,300	108,600	108,800
Leaf (Potential Harvest) (ha)	52,600	60,975	69,200	95,600	130,600	174,700	183,600	165,300	155,500
HCl (Potential) (mt)	140	154	175	240	325	435	460	435	410
<b>Seizures</b>									
Coca Leaf (mt)	13.8	55.0	164.3	132.9	146.8	99.1	33.4	25.2	—
Coca Paste (mt)		—	—	—	—	—	—	—	7.7
Cocaine HCl (mt)	2.77	2.70	3.59	1.70	2.30	1.01	7.65	0.10	0.47
Cocaine Base (mt)	5.71	9.01	6.65	19.70	8.80	18.68	15.00	10.60	5.3
<b>Total Cocaine (mt)</b>	<b>8.48</b>	<b>11.70</b>	<b>10.24</b>	<b>21.40</b>	<b>11.10</b>	<b>19.69</b>	<b>22.65</b>	<b>10.70</b>	<b>5.77</b>
Heroin (mt)	.004	.002	—	—	—	—	—	—	—
<b>Aircraft (items)</b>	<b>1</b>	<b>2</b>	<b>—</b>	<b>—</b>	<b>11</b>	<b>7</b>	<b>22</b>	<b>4</b>	<b>13</b>

# Uruguay

## I. Summary

Uruguay is neither a major producing nor transit country for narcotics. Efforts to fight both drug trafficking and domestic consumption are effective, although law enforcement agencies and drug programs have limited resources at their disposal. Uruguay made significant efforts to combat money laundering in 2001, most notably with the expansion of the anti-money laundering law and the creation of a Financial Information and Analysis Unit in the Central Bank of Uruguay. Current areas of concern include the increased presence of marijuana in both seizures and consumption, and the lack of inspection of containers at the port of Montevideo. The Government of Uruguay (GOU) and the U.S. continue to have a cooperative relationship at both the formal and informal levels. Uruguay is a party to the 1988 UN Drug Convention.

## II. Status of Country

Uruguay is not a major drug producing or drug transit country. Regular seizures of small quantities of drugs on travelers from Argentina, Brazil, and Paraguay indicate that passage through Uruguay is used to hide the origin of the drugs. This activity has caused increased concern since Uruguay's admittance to the U.S. Visa Waiver Program in 1999. Lack of inspection and control over container movement through the port of Montevideo continues to be a problem. In addition, although precursor chemical regulatory controls exist, their effective enforcement is questionable, and there is the possibility that MDMA ("ecstasy") is being produced in-country. Drug consumption appears to be at relatively low levels, although use of marijuana may be growing. There are indications of both a growing public awareness of the dangers of drug use and a popular opinion that the personal consumption of drugs should be criminalized.

For years Uruguay has attracted bank depositors with its strict bank secrecy laws, currency exchange regulations, and overall stability, leading to the assumption that the country may be a destination for money laundering. The GOU made significant gains in money laundering control during 2001 and continued to reinforce its control apparatus. In May 2001, Uruguay extended the predicate offenses for money laundering beyond drugs and corruption to other serious crimes, a key step noted by the Financial Action Task Force (FATF) in its June 2001 review. Due to this and other measures, FATF did not identify Uruguay as non-cooperative in the international fight against money laundering.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Despite President Jorge Batlle's occasional public statements supporting the legalization of the drug trade, his government continues to make counternarcotics efforts a state priority. Indeed, he has increased military involvement in anti-contraband and trafficking actions and was personally involved in the GOU efforts to improve anti-money laundering regulations. The President and his "Drug Czar" Leonardo Costa supported legislation criminalizing a broad range of money laundering activities; the law passed through both houses of Congress with unusual speed during 2001. This action improved upon a law that had only criminalized the laundering of money arising from narcotics trafficking. The GOU remains committed to education and prevention efforts, although funding levels are low.

**Accomplishments.** Uruguay remains active in international anti-narcotics efforts and, as a member of the Southern Cone Working Group of the International Conference for Drug Control, the GOU also regularly exchanges information on narcotics trafficking with the other members. Uruguay hosted a

regional conference of GAFISur, an arm of the FATF, at which it volunteered to be one of the first two participants in the Mutual Evaluation Mechanism (MEM).

**Law Enforcement Efforts.** The enhanced anti-narcotics efforts begun in 2000 continued to see results in 2001, as arrest and seizure rates remained high compared to previous years. The April 2001 seizure of 5.8 kilograms of heroin at Carrasco International Airport was the first large scale seizure of heroin in the country and was viewed as a significant success for the Directorate General for the Repression of Illicit Drug Trafficking (DGRTID). The effectiveness of the different groups responsible for law enforcement in narcotics issues has improved, but some difficulties in communication and joint efforts among the DGRTID, the police, the National Directorate for Intelligence and Information (DNII), and the Military Intelligence Agency (DGID) remain, stemming partly from a competition for limited resources. Overall, GOU law enforcement efforts are effective, leading to a higher arrest rate, while improved case preparation prior to court trials has led to an increased conviction rate.

**Corruption.** There are no indications that senior GOU officials have engaged in drug production, trafficking, or money laundering. Public officials who do not act on any knowledge of a drug-related crime may be charged with a “crime of omission” under the Citizen Security Law. In addition, the Transparency Law of 1999 criminalizes various abuses of power by government office holders and requires high ranking officials to comply with financial disclosure regulations. GOU policy does not encourage or facilitate the production of drugs, distribution of drugs, or money laundering, including the laundering of proceeds from illegal drug transactions.

**Agreements and Treaties.** Uruguay is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Uruguay signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants on December 13, 2000. Uruguay is a member of the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States (OAS). The United States and Uruguay have a valid extradition treaty that entered into force in 1984 and a mutual legal assistance treaty (MLAT) that entered into force in 1994. In September 2001, the GOU and the United States signed two letters of agreement (LOA), under which the United States is providing counternarcotics/anticrime assistance to Uruguay. The first LOA provides programs to promote police professionalism, enhance police effectiveness in combating narcotics-related crime, and improve border control capabilities. The second LOA addresses demand reduction programs. In addition, Uruguay is an active participant in GAFISur, a regional organization committed to implementing the 40 recommendations of the FATF, and was a voluntary participant in its Mutual Evaluation Mechanism (MEM).

**Cultivation/Production.** There is no significant cultivation or production of drugs in Uruguay.

**Drug Flow/Transit.** Uruguay is not a major drug-transit country. The main drug that transits Uruguay is marijuana, which generally enters the country from Paraguay via Brazil. The currently low price of Paraguayan marijuana has raised concern in the GOU, which anticipates an increase in shipments of that drug. The Uruguay-Brazil border is very porous and law enforcement presence there is minimal. The DGRTID has expressed concern that the effects of Plan Colombia on trafficking in the Andes has created the need for a new southern corridor for cocaine, with Uruguay as one of the transit points. Although Uruguay shares a long river border with Argentina, maritime drug seizures are rare, in part because the GOU has limited financial resources to spend on opening and searching the high volume of container traffic through the port of Montevideo.

**Domestic Programs (Demand Reduction).** The GOU does not maintain statistics on domestic drug consumption, and indications are that drug use within Uruguay is fairly low, with the majority of use concentrated in increasingly popular marijuana. The Alliance for a Drug Free Uruguay has increased its activity over the last two years, placing its counternarcotics message in media advertisements, event promotion, and the sponsorship of sporting events. The National Drug Secretariat (SND) has sponsored

teacher training, public outreach, and programs in community centers and clubs. Recent opinion polls indicate that there is a growing understanding of the dangers of drug use and a rise in the calls for increased anti-narcotics efforts by the GOU, including criminalizing drug use.

### **IV. U.S. Policy Initiatives and Programs**

**U.S. Objectives.** USG support complements GOU efforts to strengthen money-laundering controls, enhance anti-trafficking enforcement, improve immigration and border control efforts, and reduce demand for illicit drugs.

**Bilateral Cooperation.** The USG and the GOU work together on a variety of counternarcotics efforts. The USG has provided equipment, including computers, machine-readable passport scanners, and software, to the GOU for use in upgrading border control. A canine breeding and training program continues to be supported in the DGRTID. The USG has also sponsored training targeting increased police professionalism and the enhancement of Coast Guard and Customs controls at the port of Montevideo. The Federal Law Enforcement Training Center (FLETC) held two seminars on financial investigations during 2001, attended by judges, prosecutors, public and private bankers, and enforcement officials, designed specifically to assist the newly created Financial Information and Analysis Unit in the Central Bank of Uruguay (BCU). In addition, U.S. funds have supported the work of the Alliance for a Drug-Free Uruguay, an NGO spreading its counternarcotics message through broadcast advertising, event sponsorship, and sports promotions.

**The Road Ahead.** Future cooperative efforts will target anti-money laundering efforts and demand reduction programs. Assistance to the DRGTID canine programs and GOU border control efforts will also continue.

# Venezuela

## I. Summary

Venezuela's 2,200-kilometer border with Colombia, much of which consists of coastal deserts, mountain ranges, and remote fluvial plains largely beyond the reach of government control, offers opportunities for narcotics smuggling and production activities. A heavily transited but poorly regulated border point of entry on the Pan-American highway sees the passage of hundreds of unchecked tractor-trailers and trucks each day. The massive Orinoco river system forms two sides of Venezuela's southwestern border, then continues northeasterly through Venezuela to the coast, at the convergence of the Atlantic Ocean and the Caribbean Sea. It has become a well-developed route for the annual shipment of an estimated 100 metric tons or more of cocaine to the U.S. and Europe. Venezuela's unsecured seaports serve as embarkation points for multi-ton loads of cocaine secreted in cargo containers bound for the U.S. Most large containerized shipments of cocaine seized in Florida during the past decade transited Venezuelan ports. 2001 witnessed the disturbing discovery of the first coca paste laboratories in Venezuela. Heroin smuggling by human couriers on commercial passenger flights to the U.S. and Europe also increased in 2001.

Against this upsurge in activity of Colombian narcotrafficking organizations operating in Venezuela, the Government of Venezuela (GOV) has attempted to pass expansive new legislation, refine the focus of its small force of criminal investigators and public prosecutors, and worked with the USG toward the development of improved intelligence, investigative, interdiction, and judicial capabilities. GOV drug enforcement officials are dedicated, professional, and sincere in their efforts to combat narcotrafficking and drug abuse in Venezuela. They are hampered, however, by deficient budgets.

Venezuela is a party to the 1988 UN Drug Convention.

## II. Status of Country

Cocaine trafficking through Venezuela remains high and may be on the increase. By some estimates, Venezuela may now be the number two exporter of cocaine from South America, with as 100 metric tons or more of cocaine transiting the country annually. Almost all of the cocaine and heroin that transits Venezuela enters the country via multiple land, sea, and air routes from neighboring Colombia. Most of the cocaine is smuggled in by land and then concealed in commercial cargo leaving major Venezuelan seaports. In Miami, most of the large cocaine seizures of the past decade have been from commercial maritime cargo containers which transited Venezuela. Taking advantage of several dozen international flights departing Venezuela each day, passengers smuggle heroin in small quantities to the U.S. and Europe, the total amount currently estimated at more than a quarter metric ton per year.

Coca fields as large as eight hectares were located and eradicated during May 2001 operations conducted by the Venezuelan Army and National Guard. More significantly, coca paste processing laboratories were discovered for the first time in Venezuela in 2001; three laboratories were detected and destroyed. Several hundred kilograms of macerated coca leaf and coca paste seized provided further evidence of a nascent cocaine production industry in Venezuela. An example of the growing aggressiveness of narcotraffickers operating in Venezuela: a remotely detonated hand grenade booby trap wounded three national guardsmen as they participated in the destruction of a coca paste laboratory and the eradication of an adjacent field of four hectares of coca. Opium poppy, grown in Venezuela for nearly a decade, continues to be cultivated in small quantities.

An estimated 350,000 Venezuelans consume illegal drugs, representing about 1.5 percent of the national population, but that estimate may be low. In a recent survey, one-third of Venezuelans reported knowing

of a friend or relative who had consumed illegal drugs in the last year and 85 percent believed that drug addiction had increased “a great deal” in the previous 12 months.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Progress on major legislative issues continued to be slow throughout 2001. The primary source of disappointment was the National Assembly’s failure to move forward on passage of the Organized Crime Bill. First sent to the National Assembly in 1999, this Bill would arm Venezuelan law enforcement with a full array of tools needed to effectively combat narcotrafficking organizations and organized crime, including authorization for use of undercover agents and controlled deliveries, an expanded scope of criminal money laundering (currently limited to proceeds of narcotrafficking), establishment of the concept of conspiracy, and enhanced and streamlined asset forfeiture. After four years of development, the organized crime bill finally entered and passed its first reading during the final quarter of 2001. The second reading is scheduled for early 2002; predictions from GOV contacts range from quick passage to serious threat of derailment. A major revision to the National Narcotics and Psychotropic Drug Law (LOSEP), which would provide for improved chemical control regulation, is scheduled for passage on the same timetable.

Venezuela actively participated in Operation “Seis Fronteras,” a regional chemical control effort conducted during October and November 2001. Although detection and seizures of precursor chemicals destined for illicit drug production were small, the operation did serve to highlight the inadequacies of current legislation. While strict laws govern the importation of such chemicals, once the chemicals have arrived in Venezuela, regulations are lax. The GOV’s chief agency for chemical control plans to correct this problem in the short term with an administrative adjustment.

The National Commission against the Illicit Use of Drugs (CONACUID) is Venezuela’s equivalent of the U.S. ONDCP. In August, CONACUID conducted an extraordinary four-day workshop to develop a five-year National Drug Control Plan. Co-organized by OAS-CICAD, the 32-hour workshop was well attended by over 120 high and mid-level officials representing virtually every government, military, police, and NGO in Venezuela with an interest in curbing narcotics trafficking and consumption. The initial result was the development of over 80 projects in support of a dozen goals, covering all 11 categories of the 1988 UN Drug Convention. For the most part, the GOV expects to accomplish the goals and objectives of its five-year plan using its own resources, but with support from the U.S. and other nations.

**Accomplishments.** While 2001 saw no spectacular drug seizures to compare with the August 2000 seizure of 8.8 metric tons of cocaine in Operation Orinoco, there were several large seizures. Cocaine was routinely confiscated in quantities of two to eleven kilograms throughout the country. The larger cocaine seizures typically took place in the states of Tachira and Zulia, which border Colombia in the northwestern corner of Venezuela; Falcon, a coastal extension of Zulia state; and the island of Margarita and mainland state of Sucre, which fronts Margarita island in the northeastern corner of Venezuela.

The GOV drafted sweeping new legislation, instituted a modern adversarial justice system, and has promised to pass a far-reaching organized crime bill. A vetted drug task force, created in the second half of 2001, focused considerable investigative effort on organized narcotrafficking and related money-laundering activities. Within months of its creation, and with only meager logistical resources, this fledgling group of prosecutors and criminal investigators detected plans to ship a large quantity of cocaine via maritime cargo container to the U.S., seizing 1.2 metric tons of cocaine in the process.

**Law Enforcement Efforts.** Venezuela continued to build on last year’s successful multilateral investigations and operations. U.S., Dutch, and Venezuelan law enforcement agencies conducted a combined investigation which resulted in the successful pursuit and capture of several “go-fast” boats, the seizure of 560 kilograms of cocaine, and the arrest of several traffickers. Another investigation resulted in one of the largest heroin seizures to date in Venezuela, 15 kilograms, at Caracas’s Maiquetia Airport, which was to be smuggled through Miami for final distribution in New York. Another investigation led to

the arrest of seven “mules,” attempting to board a flight bound for Amsterdam, carrying a combined total of 485 cocaine pellets weighing 8.7 kilograms.

A specialized new unit, the Prosecutor’s Drug Task Force (PDTF), was created, staffed, vetted, trained, and equipped during the later half of 2001. Under DEA guidance, three public prosecutors and about 15 agent/investigators from both of Venezuela’s lead drug law enforcement agencies, the Technical Judicial Police and the National Guard Antidrug Command, were hand-selected and vetted to work directly with DEA liaison special agents and intelligence analysts. The PDTF began conducting in-depth criminal investigations, identifying the composition and personalities of narco-trafficking organizations, and provided actionable intelligence resulting in the seizure of a containerized cocaine shipment at the Puerto Cabello seaport during the final quarter of 2001. CONACUID continued to play a leadership role as the coordinator of the national counternarcotics strategy and worked with law enforcement and the military to improve money laundering restraints, chemical precursor control, and eradication of illegal drug cultivation.

From the Public Ministry (prosecutorial branch of the Ministry of Justice), to the National Guard and the GOV Drug Czar’s office, key drug enforcement officials up through the sub-ministerial level are dedicated, professional, and sincere in their efforts to combat narco-trafficking and drug abuse in Venezuela, but they are hampered by deficient budgets. Prosecutors and judges often lack computer or even telephone equipment in their offices, having to rely on typewriters and personally owned cellular telephones to do their jobs. Another drug control agency reported major staffing cutbacks. Venezuela’s participation in a major region-wide chemical control operation was entirely contingent upon funding from the U.S. to cover routine operating expenses. In late 2001, the Public Ministry obtained a \$75 million dollar loan from the Inter-American Development Bank to pursue goals in support of the new penal code, including expanding the prosecutor training program, clearing the backlog of cases still pending under the former inquisitorial justice system, installing an automated network to connect prosecutors offices around the country, and initiating a public awareness campaign to inform citizens about the new penal code and accusatorial justice system.

**Corruption.** The Government of Venezuela does not as a matter of policy or practice encourage or facilitate drug trafficking or money laundering, nor are its senior officials proven to engage in, encourage, or facilitate such activities. The GOV recognizes corruption as a problem of major magnitude and has focused considerable attention on combating it, especially in the law enforcement and judicial sectors.

During 2001, incumbents of several high-level law enforcement positions were replaced, some of these reportedly involving allegations of corruption. GOV law enforcement officials aggressively target the corrupt practices occasionally found among low-level GOV officials, typically in and around seaports and airports, involving drugs, precursor chemicals, and firearms.

**Agreements and Treaties.** Venezuela is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Venezuela has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. The GOV has also signed a number of important bilateral agreements with the U.S., including a ship-boarding agreement from 1991 (updated with a new protocol in 1997), a Memorandum of Understanding concerning cooperation in narcotics, and a customs mutual assistance agreement. In 1997, the U.S. and Venezuela signed a bilateral mutual legal assistance treaty (MLAT), which is still pending approval by the Venezuelan National Assembly. Venezuela’s 1999 “Bolivarian” constitution expressly prohibits the extradition of Venezuelan citizens. Previously, Venezuela had only a statutory bar to the extradition of nationals. Given the current political environment, this is extremely unlikely to change in the foreseeable future. Venezuela extradited U.S. national Roque Pena Bonano in 2001. This was the first extradition out of Venezuela since 1997.

Venezuela is also party to numerous bilateral and multilateral narcotics control agreements, including bilateral agreements with 15 other Latin American and Caribbean nations, as well as one Asian and three



European countries. Venezuela is a party to the Inter-American Convention Against Corruption and in 2001 signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention. Additionally, Venezuela has entered into two agreements with the EU. The scope of these agreements ranges from suppression of trafficking and demand reduction to specific controls on money laundering and precursor chemicals.

Elements of Venezuela's private sector are active participants in the U.S. Customs Service's Business Anti-smuggling Coalition (BASC) program. This program seeks to increase the effectiveness of law enforcement officers in their efforts to deter narcotics smuggling in commercial cargo shipments and conveyances by enhancing private sector security programs. Hundreds of Venezuelan companies, organized into two BASC chapters, participate in the program to eliminate the infiltration of drugs into their legitimate commercial shipments to U.S. markets. BASC is part of USCS's Americas Counter-smuggling Initiative (ACSI).

In November 2001, Venezuela's drug czar was elected to a one-year term as president of the Organization of American States' Commission for Drug Abuse Control (CICAD). Venezuela participated in hemispheric efforts to develop CICAD's multilateral evaluation mechanism (MEM) to improve counternarcotics cooperation.

**Drug Flow/Transit.** Venezuela is a major transit country for shipment of cocaine, heroin, and marijuana to the United States and Europe. Containerized shipments via commercial sea freight are the dominant method of smuggling cocaine in loads of a ton or more. Heroin is moved primarily via courier on commercial airlines. A troubling new trend is cocaine base production capability within Venezuelan territory adjacent to Colombia; three cocaine base labs with attendant chemicals and processing equipment were discovered in 2001. Cultivation of significant fields of coca in Venezuela was also reported for the first time in 2001.

Venezuela's shared border with Colombia, measuring 2,200 kilometers with numerous border and river points of entry, and its extensive transportation network, including large commercial sea ports, have for many years made this country an ideal transit route for illegal drugs from the South American cocaine and heroin production centers. Narcotrafficking organizations take advantage of these many opportunities to smuggle illegal narcotics to U.S. and European markets via numerous Caribbean routes. Most drugs seized in the U.S. mainland and Puerto Rico after transiting Venezuela have been found in commercial cargo which had sailed from Venezuela's major seaports, particularly from Puerto Cabello. In addition, "go-fast" boats and general aviation aircraft carrying illegal drugs transit Venezuelan airspace or waters on the way to Caribbean transshipment points.

The Orinoco River system, comparable in size to the Mississippi, flows from several rivers in Colombia into and across Venezuela, to empty through a delta into the convergence of the Caribbean Sea and the Atlantic Ocean. Narcotraffickers' use of the Orinoco was illustrated in the spectacular August 2000 seizure of 8.8 metric tons of cocaine stockpiled at Ciudad Bolivar and other locations along the river.

Synthetic drugs (including methamphetamine and MDMA/"ecstasy") are smuggled into Venezuela and essential precursor chemicals are diverted from Venezuela to Colombian drug laboratories. Mediocre chemical control regulations, currently being strengthened through legislative and administrative means, have not provided adequate checks on the sale and movement of precursor chemicals within or out of the national territory. Importation of controlled chemicals is more strictly monitored.

**Domestic Programs (Demand Reduction).** CONACUID serves as the centralized coordinating body for nationwide demand reduction and treatment programs in Venezuela. Its areas of interest include educational demand reduction products, support for treatment of drug addicts, and collection and analysis of drug consumption and rehabilitation statistics. In addition to CONACUID's large network of public and private demand reduction and treatment organizations, other groups such as the Alliance against Drugs (Alianza contra las Drogas) undertake important work on their own. CONACUID and Alianza

plan to conduct independent surveys in 2002 to determine the nature and extent of drug abuse in Venezuela.

### **IV. U.S. Policy Initiatives and Programs**

**U.S. Policy Initiatives.** Ultimately, the diverse manifestations of narcotrafficking—cultivation, chemical diversion, production, transportation, smuggling, market development, sale, money laundering—are all operations of organized crime, without which this illegal activity could not be sustained on such a massive scale. The overall USG counternarcotics goal in Venezuela is to disrupt and dismantle narcotrafficking organizations through numerous policy, law enforcement, and institutional development efforts.

**Bilateral Cooperation.** USG narcotics control efforts and programs underwent significant expansion in Venezuela in 2001. The DEA office filled several long-vacant positions and added new ones. The INL program budget expanded 1,300 percent, from about \$350,000 in 2000 to over \$4.2 million in 2001. The U.S. Customs Service office in Venezuela conducted assessments of Venezuela's largest commercial seaport, a known embarkation point for multi-ton containerized shipments of cocaine to the U.S., and began making plans with the GOV to enhance security. Also in 2001, the DEA and INL supported the creation of a GOV Prosecutors' Drug Task Force. This hand-selected and specially equipped group of special prosecutors and criminal investigators has already begun closing in on criminal organizations trafficking drugs in and through Venezuela. With the assistance of the Department of Justice's Overseas Prosecutorial Development, Assistance, and Training (OPDAT) program, INL trained more than 300 public prosecutors and criminal investigators in 2001 in basic concepts and courtroom procedures of Venezuela's new U.S.-style adversarial criminal justice system. This program will be expanded through specialized focus in 2002.

**The Road Ahead.** Increasingly, the collaborative efforts of the governments of the United States and Venezuela are focusing on the development of intelligence information and legal evidence aimed at disrupting and dismantling the narcotrafficking organizations that operate in Venezuela. To counter the expanding use of Venezuela's seaports and border points of entry as drug transit routes, the U.S. Customs Service and INL will sponsor projects to improve security at these locations by assisting the GOV to improve organizing procedures and divisions of responsibility; offering training in document inspection, cargo searches, and intelligence analysis; and donating selected equipment to improve GOV customs capabilities. USCS will deploy several customs inspectors to key ports and border locations as trainers and advisors during the start-up phase at each location. In support of this port security program and other projects, the DEA and INL will assist the GOV to improve its ability to gather counternarcotics intelligence in the course of interdiction operations, conduct analysis, and assemble the data usefully. This processed intelligence will in turn be used to develop interdiction operations of increasing strategic importance and guide criminal investigations against key trafficker personalities. Supporting this strategy, INL and DOJ's Overseas Prosecutorial Development, Assistance, and Training program will expand into a new phase of specialization during 2002, creating a cadre of highly trained investigators and public prosecutors.

# Venezuela Statistics

(1993–2001)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Seizures</b>									
Cocaine HCl (mt)	11.51	15.03	12.48	7.30	14.58	5.60	6.17	5.10	2.00
Other Cocaine (Basuco) (mt)	.025	0.14	0.62	1.30	1.60	1.60	1.60	1.60	1.30
Total Cocaine Products (mt)	11.76	12.43	13.10	8.60	16.18	7.20	7.77	6.70	3.30
Cannabis (mt)	7.06	12.43	19.69	4.50	5.52	5.30	13.70	10.00	1.00
Heroin (mt)	0.21	0.13	0.04	0.04	0.11	0.07	0.10	0.02	0.02
<b>Arrests</b>									
Nationals		2,341	6,414	7,242	4,880	—	3,000	—	—
Foreigners		275	216	289	499	—	600	—	—
<i>Total Arrests</i>		2,616	6,630	7,531	5,379	—	3,600	—	—



**CANADA, MEXICO  
AND  
CENTRAL AMERICA**



## Belize

### I. Summary

The Government of Belize (GOB) recognizes that the transit of drugs is a serious concern and works closely with the United States on narcotics control and international crime issues. In 1999 Belize was removed from the list of major drug-transit countries, but it remains a country of concern to the United States. In 2001 several large shipments of cocaine were seized in Belize territorial waters and mainland Belize. Belize is a party to the 1988 UN Drug Convention.

### II. Status of Country

Belize has a population of approximately 250,000 and a landmass of 8,866 square miles with borders contiguous with Guatemala and Mexico. The topography consists of large tracts of unpopulated jungles and forested areas, a lengthy unprotected coastline, hundreds of small caves, and numerous navigable inland waterways. These factors, combined with Belize's rudimentary infrastructure, make Belize a natural transshipment point for illicit drugs. On January 15, 2002, Belize formally ended its economic citizenship program. This program had raised serious concerns in the past, because it allowed some international criminals and fugitives from justice to receive Belize citizenship.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In November the Commissioner of Police proposed that the Anti-Drug Unit be increased from 12 members to 23 members. Since its inception in 2000, the United States has provided assistance to this vetted unit, and the U.S. Department of Justice and the DEA vetted the initial members of the unit. Additional members of the unit have yet to be vetted by DOJ/DEA personnel. During 2001, the GOB increased the size of its police force, which participated in regional counternarcotics operations, attended training exercises in Belize, and received training in the United States.

In October the National Drug Abuse Control Council (NDACC), which the GOB created in 2000, published the first National Teachers Guide to Drug Awareness and Education. The guide was produced in cooperation with the EU, and is to be used by teachers as well as students.

**Accomplishments.** In 2001 the GOB increased the size of the police force from 835 to 910 officers. Tourism police, who do not have arrest authority, number 44. The new extradition treaty between Belize and the United States entered into force on March 27, 2001.

The GOB fully participated in joint counternarcotics operations with the USG, such as "Central Skies" and "Operation Ocean Garden," a cooperative U.S.-U.K.-Belize counternarcotics maritime operation. The United States assisted the GOB in the regular manual eradication missions carried out by the Belize Police Department (BPD) and the Belize Defense Force (BDF). Throughout the year, the GOB also carried out its own independent counternarcotics operations, in addition to participating in regional counternarcotics initiatives. Although the GOB's capability is limited, it is working to improve. The government continues to dedicate resources to major maritime interdiction efforts.

**Law Enforcement Efforts.** Seizures of cocaine, including crack cocaine, substantially increased from 13 kilograms in 2000 to 3,850 kilograms in 2001. Authorities also seized 245 kilograms of cannabis, 8 kilograms of cannabis seed, and 3 kilograms of heroin. The Anti-Drug Unit is dedicated solely to handling narcotics cases and conducts operations throughout the year. In 2001, 2,000 arrests were made on drug-related charges stemming from possession of or trafficking in marijuana, cocaine, crack cocaine, and heroin. Additionally one MDMA (ecstasy) laboratory, 12 "go-fast" boats, and one aircraft were seized.

Finally, the Belize police arrested a known Mexican drug lord Jorge Moreno, aka Jorge Teller, with over 1,000 pounds of cocaine. He is now awaiting trial.

**Cultivation/Production.** In 2001 (January through November), 110,000 marijuana plants were eradicated in Belize. The GOB continues to cooperate and encourage aerial reconnaissance operations, after which the BPD and BDF manually eradicate marijuana fields and seedlings. (Due to environmental concerns, the GOB does not allow spray missions for the eradication of marijuana.) Illicit cultivation of marijuana continues, however, and marijuana remains the most widely grown drug crop in Belize. Typically, marijuana fields are located in remote regions, far from the homes of the cultivators. As a result, although thousands of plants were destroyed, few attendant arrests were made.

**Drug Flow/Transit.** The major narcotics threat in Belize is cocaine transshipment through Belize waters for onward shipment to the United States. The Belize coastline offers a multitude of opportunities for maritime traffickers. Often the drugs will be off-loaded on the ocean side near the barrier reef to smaller, “go-fast” boats and other vessels. These vessels then transit Belize’s territorial waters with relative safety due to numerous hiding locations and shallow water. One of the major impediments to dealing effectively with these shipments is the lack of adequate resources and interdiction capabilities (specifically equipment, vessels, and personnel), and critical information such as locations and times of delivery.

Alternatively, once cocaine is delivered to Belize, it customarily moves northward on the northern highway. This highway leads to the Corozal commercial “free zone” as well as the Santa Elena border crossing of Belize and Mexico. The exploitation of numerous unguarded remote border crossings and lax customs enforcement contribute to cross-border operations.

Intelligence suggests that the Colombian drug cartels have established partnerships with the Mexican drug cartels, creating an increase in Mexican drug trafficking activities in Belize. It has been confirmed that the Mexican cartels have used clandestine aircraft and sea vessels in their drug operations within Belize, and as such, Belizean drug traffickers merely provide resources. The Mexican cartels are fully in charge and responsible for any operation’s success.

**Money Laundering.** Money laundering is a potential threat to Belize because of its growing offshore financial sector. (For additional information see the Money Laundering Section of the INCSR.)

**Asset Seizure.** Belize law permits the seizure of assets connected to drug trafficking, and planes, boats, cash, vehicles, and weapons have been seized. Further negotiations to implement an international asset-sharing program in Belize await U.S. action.

**Precursor Chemical Control.** In November, the Belize police seized their first chemical laboratory and arrested several individuals. There is almost no industry in Belize that requires the use of precursor chemicals, so the seizure of a lab of this sort is cause for concern. In the past Belize had no signs of precursor chemical production. Nevertheless, in support of the 1988 UN Drug Convention the GOB now has an existing precursor chemical control program.

**Domestic Programs (Demand Reduction).** NDACC coordinates the GOB’s demand reduction efforts, providing drug abuse education, information, counseling, rehabilitation, and outreach. NDACC also operates a public commercial campaign, with radio advertisements and billboards, designed to dissuade youths from using drugs.

**Corruption.** In April 1999, the GOB created an Office of the Ombudsman, which is authorized to independently investigate allegations of wrongdoing by public officials, the police, and/or the military. Once the allegation has been substantiated, the Ombudsman may then bring charges against the accused regardless of their position or rank. The police have a separate internal affairs investigator charged with handling complaints against police officers. In 2001, several police officers were charged with corruption in a criminal investigation and released from their duties. Additionally, the Deputy Police Commissioner was relieved of duties for corruption.



**Agreements and Treaties.** Belize has been a party to the 1988 UN Convention since 1996. It is also a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances, to which it acceded on December 18, 2001. In March 1997, Belize ratified a stolen vehicle treaty with the United States. 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 United States and Belize. In 1992, Belize set the standard for maritime counternarcotics cooperation in the region by signing the first maritime counternarcotics agreement with the United States. Belize and the United States signed an over-flight protocol to the 1992 maritime agreement in April 2000 and signed a new extradition treaty in March 2000. The extradition treaty entered into force on March 27, 2001. The United States and Belize signed a new mutual legal assistance treaty in September 2000, which Belize has ratified. However, Belize will need to make significant changes to its domestic law to make the treaty effective once it enters into force. The United States and Belize also entered into an agreement on mutual cooperation on reducing demand, preventing illicit use, and combating illicit production and traffic of drugs in 1989.

#### **IV. U.S. Policy Initiatives and Programs**

U.S. counternarcotics policy toward Belize continues to focus on assisting the GOB to develop a sustainable infrastructure to effectively combat drug problems. In 2001, U.S. support included counternarcotics and law enforcement assistance, which provided Belize with equipment and training for the BPD's counternarcotics unit, training for the Department of Immigration and the Customs and Excise Department, and training for both the magistrate and supreme courts. The U.S. Coast Guard and the U.S. Southern Command, including JITF-E and JTF-Bravo among others, responded to GOB requests for training and logistics support for counternarcotics activities.

**The Road Ahead.** With trafficking routes constantly in flux, it appears that Belize has again become a significant transshipment point for cocaine and other illicit drugs. Marijuana cultivation continues to require monitoring and periodic eradication. Drug-associated criminality is increasing, and obtaining convictions is difficult, as the Office of the Public Prosecutor remains under-trained, under-paid, and poorly equipped.

After three years in power the People's United Party continues to advocate combating drug trafficking and associated crime as a top priority. U.S. support should continue to focus on supporting police counternarcotics units and improving Belize's legal and judicial infrastructure.

# Canada

## I. Summary

All levels of Canada's government are involved in efforts to reduce the harm and availability of illicit drugs. At the federal level, 11 departments and agencies spend approximately \$500 million (Canadian) to combat illicit drug use in Canada. Municipal and provincial/territorial governments are equally involved in addressing illicit drugs.

Canada's drug control strategy focuses on reducing the harm that drug consumption does to society through reducing demand and supply. Canadian law enforcement authorities focus much of their drug control efforts against organized crime, and in 2001 they carried out significant operations against outlaw motorcycle gangs who control much of the distribution of drugs in Canada. Canada strengthened regulations against money laundering in 2001 as part of its efforts to fight organized crime and to participate internationally in combating the financing of terrorism. Canada cooperates closely with the U.S. and internationally on drug control efforts. Canada is a party to the 1988 UN Drug Convention.

## II. Status of Country

Canada is primarily a consumer country of illicit drugs, but it is increasingly becoming a producer and transit country for precursor chemicals and over-the-counter drugs used to produce illicit synthetic drugs. While illicit drug production, distribution, and use are illegal, an exception is made for the medical use of marijuana; regulations went into effect in July 2001 to permit terminally or chronically ill Canadians to apply for a legal exemption to smoke marijuana. Over 600 people have been granted approval to date.

Hydroponic hothouse operations in Canada produce high THC level marijuana. Though much of the marijuana produced in Canada supplies domestic demand, some of it supplies the U.S. demand for high quality marijuana. Other drugs, primarily heroin, cocaine, and MDMA (ecstasy) are trafficked through Canada, as international drug traffickers take advantage of Canada's proximity to the United States, less stringent criminal penalties as compared to the U.S., and the constant flow of goods across the U.S.-Canada border.

Precursor drugs and chemicals that can be used in the production of synthetic drugs, strictly controlled in the U.S., are not regulated in Canada. Consequently, Canada increasingly supplies precursor material for synthetic drugs produced in the U.S. Pseudoephedrine (PSE), a common cold remedy and the main component in the manufacture of methamphetamine, is legally imported into Canada in powder form from China, India, and Germany. Canadian imports of PSE were steady before 1997, but tripled between 1997 and 1998, and have increased steadily since. Much of the PSE imported into Canada appears to have been intended for the production of illicit drugs. U.S. law enforcement intercepted over 30 metric tons of PSE originating in Canada in 2001. These seizures represented 25 percent of the total amount of PSE legally imported into Canada that year. Other precursor chemicals available in Canada and used in the production of synthetic drugs are sassafras oil, piperonal, and GBL. These precursors are used in the manufacture of MDMA, MDA, and GHB, respectively. However, the Canadian chemical industry has cooperated with the Royal Canadian Mounted Police's (RCMP) recently-established National Precursor Chemical Diversion Program by providing voluntary reports of diverted chemicals. Although the RCMP created this reporting program in 1995, the Canadian government did not officially approve funding until 2000. In addition, Health Canada is preparing legislation to monitor and control precursors and other substances used in the clandestine manufacture of synthetic drugs. This legislation should assist Canadian law enforcement's efforts in the investigation of chemical diversion cases.

Cocaine, heroin, hashish, and a variety of synthetic drugs enter Canada in sea containers, through international airports, and by land. Canadian law enforcement has focused its efforts over the past several

years against organized crime. Organized crime groups direct and profit from an array of criminal activity, including but not limited to the traffic of illegal drugs into and through Canada. According to the RCMP, Asian-based organized crime groups dominate in the traffic of heroin from Southeast Asia to Canada. The RCMP estimates that one to two tons of heroin are required annually to meet the demand of Canada's estimated 25,000 to 40,000 heroin users. Cocaine traffic and distribution involves a number of organized crime groups. The RCMP estimates that approximately 15 to 24 tons of cocaine enter Canada each year. Outlaw motorcycle gangs, Colombian, Italian, and Asian-based criminal organizations, to varying degrees, cooperate with one another in the traffic and distribution of illegal drugs. Large-scale marijuana cultivation operations involve Asian organized crime and outlaw motorcycle gangs. Ecstasy imports have been increasing in the past several years. Small-scale production occurs in Canada, but Israeli, Russian, and Dutch-based traffickers import the bulk of the supply from Western Europe. The RCMP believes methamphetamine use and production are on the rise in Canada. A variety of other synthetic drugs are produced in Canada, including MDA and GHB, similar in effect to ecstasy. The U.S. is the principal source of LSD sold in Canada.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The GOC recognized that Canada needed to adopt a flexible regulatory and administrative framework for controlling precursor chemicals. Health Canada is drafting precursor chemical control regulations, and expects their implementation at the end of 2002.

**Accomplishments.** Canadian law enforcement made substantial inroads against organized crime in 2001. On March 28, 2001, in one of the largest one-day police operations of its kind in Canada, nearly 2,000 officers carried out simultaneous raids in 77 municipalities in Quebec against the Hells Angels for cocaine trafficking activities. Arrests were made of 138 leaders, members, and associates of the Hells Angels. Outlaw motorcycle groups in Quebec controlled the distribution of at least 2,400 kilos of cocaine in 2000. Documents seized showed that the group sold 115 kilos of hashish and 452 kilos of cocaine in one 30-day period late in 2000, generating \$18.1 million (U.S.). The goal of the operation, the culmination of four joint task force operations, was to destabilize the structure of the Hells Angels organization. Arrests also took place in Ontario, Manitoba, and British Columbia. The operation coordinated the efforts of police forces at regional, national, and international levels. Canada received cooperation from Jamaica and Mexico in arresting and deporting two suspects.

On November 14, 2001, after a one-year joint task force operation, Canadian police raided 24 locations in eastern Canada, arresting 19 suspects in a major drug ring supplying hashish from Spain to Canada through the port of Halifax. Seized were 48 kilograms of hashish, over a kilo of cocaine, cash, vehicles, firearms, two ships, and seven properties.

In 2001, record amounts of PSE were seized in the U.S. en route from Canada to methamphetamine labs in the U.S. The RCMP and Canadian Customs cooperated with U.S. law enforcement in these seizures. In April 2001, nearly 43 million tablets were seized at the Detroit/Windsor border crossing. This amount of PSE could have produced 2,300 kilos of methamphetamine.

On January 10, 2002, U.S. law enforcement, together with the RCMP, announced the arrests in the U.S. of 121 individuals involved in the illegal trafficking of PSE from Canada into the U.S. This continuing investigation, Operation Mountain Express, began in 2000, and as of January 2002, resulted in the seizure of over 30 tons of PSE, 181 lbs. of methamphetamine, \$16 million U.S. in cash, over 300 arrests, and the closure of 9 methamphetamine labs.

**Law Enforcement Efforts.** In 2001, Canadian law enforcement carried out a number of successful large joint force operations against organized crime. Recently enacted organized crime legislation supports law enforcement efforts against organized crime. The new legislation simplifies the definition of a criminal organization and adds three new criminal offenses to the criminal code, targeting non-members who participate in organized crime. Those convicted of organized crime will have to serve at least half of their

criminal sentence before applying for parole. Previously, only one-third of a sentence had to be served before an application for parole could be made. The new criminal provisions make intimidation against justice system participants a crime. Justice system participants include: witnesses, jurors, police, prosecutors, prison guards, judges, members of the media, and members of Parliament. The new legislation protects law enforcement officers involved in undercover operations by establishing an accountability process protecting them from criminal prosecution for offenses committed in the furtherance of a criminal investigation. A 1999 Supreme Court of Canada decision found no immunity from criminal liability for criminal activities committed by law enforcement officers in the course of an investigation.

**Corruption.** Canada holds its officials and law enforcement personnel to very high standards of conduct and has strong anticorruption 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 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The U.S. and Canada have numerous long-standing agreements on law enforcement cooperation, including extradition and mutual legal assistance treaties, a customs mutual assistance agreement, and an asset-sharing agreement. Recent agreements between the RCMP and U.S. law enforcement agencies provide reciprocal direct access to each other's criminal databases such as the Canadian Police Information Center (CPIC), a firearms identification database, and a unique automotive paint chip database. Canadian law enforcement benefits from access to the El Paso Intelligence Center (EPIC), the USG's tactical drug intelligence center.

Canada actively participates in international activities aimed at illicit drugs. Canada chairs the Multilateral Evaluation Mechanism (MEM) working group of the Inter-American Drug Abuse Control Commission of the Organization of American States (CICAD). It is an elected member of the Commission of Narcotic Drugs, the governing body of the UN International Drug Control Program. Canada collaborated with the Commission and member states to develop a "Declaration of the Guiding Principles of Drug Demand Reduction" as well as an action plan to implement the principles. The Government of Canada is a major contributor to both the UNDCP and CICAD, both in funding and technical support. Canada has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** Marijuana and marijuana-derived drugs such as hashish and hash oil are the most widely abused drugs in Canada. Marijuana cultivation, because of its profitability and the relatively low risk involved, has become a thriving industry in Canada. The RCMP estimates that 800 tons of marijuana are produced annually in Canada. Over one million plants were seized in raids by law enforcement in 2001. Indoor growing operations have generally replaced outdoor cultivation, allowing production to occur year round, increasing the quality and tetrahydrocannabinol (THC) levels of the marijuana grown, and affording better protection for drug growers from law enforcement. The growing operations are becoming larger and more sophisticated as a number of different organized crime groups get involved in producing marijuana. According to Canadian authorities, marijuana cultivation in British Columbia is a sophisticated, one billion-dollar-a-year growth industry with a sizeable amount of the harvest being smuggled into the U.S. The wide demand for marijuana in Canada is not met by domestic production alone, and marijuana and marijuana-derived drugs are imported from a variety of sources, including the U.S., Mexico, Colombia, the Caribbean, the Middle East, and to a lesser degree Thailand and Morocco.

**Domestic Programs (Demand Reduction).** Based on Canadian government estimates, there are approximately 1,000,000 drug users in Canada, including some 250,000 cocaine addicts, 125,000 people who inject drugs, and 25,000 to 40,000 heroin addicts. Canada emphasizes demand reduction in its drug control strategy and, along with NGOs, offers extensive drug abuse prevention programs. The focus on prevention is considered a more cost-effective intervention. Drug treatment courts in Vancouver and

Toronto offer alternatives to jail for convicted drug abusers facing incarceration for non-violent drug possession offenses.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** Canadian and U.S. law enforcement have an extensive cooperative relationship, perhaps the closest and most productive of our international partnerships. The two countries collaborate closely at both the federal and state/local levels, and this extends as well into the multilateral arena. The principal bilateral cooperative forum is the annual Cross-Border Crime Forum, which engages policymakers in a joint effort to guide that relationship and to enhance coordination. Its working groups continue to identify areas and priorities, such as intelligence sharing, where we can better advance our common goals. Operation North Star is an ongoing mechanism for operational coordination. The two governments have a broad array of agreements in place to facilitate legal cooperation, such as the extradition and mutual legal assistance treaties, and an information-sharing agreement between the U.S. DEA and the RCMP. Canada is by far the United States' principal extradition partner.

To further enhance this unparalleled relationship, the USG is committed to:

- - supporting Canadian efforts to strengthen legislation and regulatory practices consistent with international standards and practices;
- - maintaining and expanding two-way intelligence sharing;
- - maintaining and expanding professional exchanges and cooperative training activities between our law enforcement agencies; and
- - maintaining joint cross-border investigations and operations.

**The Road Ahead.** The United States enjoys an excellent law enforcement partnership with Canada and looks forward to further coordination of efforts in the future. The GOC has taken and has committed to take 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. Inter-governmental coordination of Canada's approach to drug control, as recommended by Canada's Auditor General, would strengthen and focus Canada's drug control efforts.

# Costa Rica

## I. Summary

Costa Rica serves as a transshipment point for narcotics from South America to the United States and Europe. Although Costa Rica is not a major transit country for drugs coming to the United States, it remains a country of concern to the United States. The bilateral Maritime Counterdrug Cooperation Agreement, which entered into force in late 1999, has improved the overall maritime security of Costa Rica and served as an impetus for the professional development of the Costa Rican Coast Guard. Costa Rican law enforcement officials continue to demonstrate growing professionalism and reliability as USG partners in combating counternarcotics offenses and ever-changing drug smuggling methods. In December 2001, President Rodriguez signed into law the long-awaited narcotics control legislation that criminalizes money laundering and creates a Counternarcotics Institute to coordinate the GOCR's efforts in the areas of intelligence, demand reduction, asset seizure, and precursor chemical licensing. (See the Money Laundering section of this report for additional details.) Costa Rica is a party to the 1988 UN Drug Convention.

## II. Status of Country

Costa Rica's location astride the Central American isthmus makes the country an attractive transshipment area South American-produced cocaine and heroin destined primarily for the United States. Enhanced maritime interdiction activity and capabilities on north-bound maritime trafficking routes prompted some smugglers to take routes further out to sea, especially in the Eastern Pacific. The number of land seizures rose in 2001, in part because of smaller quantities of illicit narcotics being carried by both people and vehicles. Costa Rica has a stringent governmental licensing process for the importation and distribution of controlled precursor and essential chemicals and prescription drugs. Local consumption of illicit narcotics including crack cocaine and "club drugs," along with the violent crimes associated with such drug use, are growing concerns to Costa Ricans. The Government of Costa Rica (GOCR) is directing more resources to address the serious threats posed by narcotics trafficking but budgetary limitations continue to constrain the capabilities of law enforcement agencies.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The 1999 bilateral Maritime Counterdrug Cooperation Agreement and the Coast Guard Professionalization Law passed in 2000 have continued to catalyze the professional development of the Costa Rican Coast Guard. The Agreement, the first comprehensive six-part agreement in the region, has been instrumental in improving the overall maritime security of Costa Rica. The Costa Rican Coast Guard Academy has graduated its first class and will be moving to its permanent home in Golfito on the southwest Pacific Coast in 2002. Costa Rica assumed a leadership role in the region by co-sponsoring with The Netherlands the first session of the "Diplomatic Conference on the Negotiations of an Agreement Concerning Co-operation in Suppressing Illicit Maritime and Aeronautical Trafficking in Narcotics Drugs and Psychotropic Substances in the Caribbean Area" in November 2001. Additionally, with the assistance of U.S. Southern Command, the Costa Rican Coast Guard hosted the Commander of the Nicaraguan Navy and two senior officers for an orientation and exchange visit.

The Legislative Assembly passed legislation proposed in 2000 to strengthen the GOCR's law enforcement capabilities to combat narcotics and related crimes in December 2001. A major benefit under the new legislation is the creation of a Costa Rican Counternarcotics Institute which will coordinate the GOCR's counternarcotics efforts in the areas of intelligence, demand reduction, asset seizure, and precursor chemical licensing. The law regulates and sanctions financial activities to combat money laundering, and

goes beyond narcotics-related offenses to include other serious crimes, including terrorism. The GOOCR does not produce a national drug control strategy. However, the creation of the Institute could facilitate the development of a comprehensive national counternarcotics plan.

**Accomplishments.** The Ministry of Public Security co-hosted with the United States a regional legislative reform conference in San Jose November 7-9, 2001. The conference served as a forum for the discussion of existing and model legislation covering wiretapping, conspiracy, controlled deliveries, undercover operations, and money laundering. Costa Rican law permits the use of controlled deliveries, undercover operations, and wiretapping in counternarcotics investigations.

Relations between U.S. law enforcement agencies and GOOCR counterparts, including the Judicial Investigative Police Narcotics Section, the Ministry of Public Security Drug Control Police, the Coast Guard, and the Air Surveillance Section, remain close and productive, resulting in continued information sharing and joint operations. Five joint counternarcotics operations were held in 2001, in which the Costa Rican Coast Guard, the Ministry of Public Security Air Surveillance Section, the Drug Control Police, the U.S. Navy, the U.S. Coast Guard, and the DEA participated. The five operations resulted in 63 days of combined operations during which there were 104 joint at-sea boardings including the disruption of a go-fast refueling operation by the boarding of a suspect mother ship off the Pacific coast. Participation of the Air Surveillance Section in these joint operations allowed for the first time the coordinated multi-asset air and sea counterdrug patrols by GOOCR personnel in Costa Rican territorial waters.

The Ministry of Public Health's Precursor Chemical and Prescription Drug Control Unit operates an effective program to license the import and distribution of precursor and essential chemicals and prescription medicines. Legislation currently pending approval would improve the control of the re-sale of precursors within Costa Rica, as well as their re-exportation.

**Law Enforcement Efforts.** The primary counternarcotics agencies in Costa Rica are the Judicial Investigative Police, under the Supreme Court, and the Ministry of Public Security's Drug Control Police. The Judicial Investigative Police operate a small, but highly professional, Narcotics Section that specializes in investigating international narcotics trafficking. The Drug Control Police investigate both domestic and international drug smuggling and distribution, and is responsible for airport interdiction as well as land-based interdiction at the primary ports of entry. Both entities routinely conduct complex investigations of drug smuggling organizations, resulting in arrests and the confiscation of cocaine and other drugs, using the full range of investigative techniques permitted under the country's progressive counternarcotics statutes. Agents of the Drug Control Police have increased the threat to overland trafficking through the effective use of contraband detectors/density meters at both northern and southern borders, resulting in seizures of cocaine hidden within tractor-trailers.

The growing professionalism and reliability of GOOCR law enforcement and judicial counterparts was highlighted in an operation that raided a San Jose night spot, resulting in the seizure of 535 dosage units of the synthetic drug MDMA ("ecstasy"). The operation targeted the largest synthetic drug distribution ring in Costa Rica and it was only the second time that Costa Rican authorities had seized ecstasy. This raid highlights the availability and popularity of ecstasy and other club drugs among young adults in San Jose.

By November of 2001, Costa Rican law enforcement authorities had seized 1.53 metric tons of cocaine, 2.8 metric tons of cannabis, and 18.4 kilograms of heroin.

**Corruption.** The commitment to combat public corruption reaches to the highest levels of the GOOCR. President Rodriguez has worked to deter corruption among public officials. The National Commission for the Improvement of Justice Administration is an umbrella organization responsible for promoting anticorruption awareness and transparency principles in the government and private sectors. Its work encompasses projects addressing judicial training and civic education, including instruction on fundamental rights for Costa Rica's indigenous population, human rights, and training programs in prisons.

U.S. law enforcement agencies consider the public security forces and judicial officials to be full partners in counternarcotics investigations and operations with little or no fear of compromise to on-going cases. To the best of the United States' knowledge, no senior official of the GOCCR engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

**Agreements and Treaties.** The six-part bilateral Maritime Counterdrug Cooperation Agreement continues to serve as the model maritime agreement for Central America and the Caribbean. The agreement has promoted closer cooperation in the interdiction of maritime smuggling. Results of the agreement in 2001 include conducting five combined maritime counterdrug operations, facilitation of 31 U.S. law enforcement ship visits to Costa Rica in support of Eastern Pacific and Caribbean counterdrug patrols, and response to seven search and rescue cases. The United States and Costa Rica also signed a bilateral Memorandum of Understanding (MOU) on Maritime Cooperation and Assistance along with the Maritime Agreement in which the United States agreed to take steps toward securing equipment and technical and training assistance for the Costa Rican Coast Guard.

The United States and Costa Rica have had an extradition treaty in force since 1991. The treaty is actively used for the extradition of U.S. citizens although Costa Rican law does not permit the extradition of nationals. Costa Rica has ratified the Inter-American Convention Against Corruption. The United States and Costa Rica concluded a bilateral stolen vehicles treaty in 1999. Costa Rica is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotic Drugs, as amended by its 1972 Protocol, and the 1971 Convention on Psychotropic Substances. Costa Rica and the United States 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 and the Egmont Group. It is also a member of the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD). Costa Rica has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants, and the Protocol against the Illicit Manufacturing of and Trafficking in Fire arms on March 16, 2001.

**Cultivation/Production.** Marijuana cultivation is relatively small-scale and generally found in remote mountainous areas near the Panamanian border, in the Caribbean region near Limon and Talamanca, and the Valle del General on the southern Pacific coast. Such cultivation is sometimes intermixed with legitimate crops. Joint eradication operations are periodically carried out under the auspices of "Operation Central Skies," utilizing U.S. Army air assets. Over five million marijuana plants have been destroyed to date during these operations. The quantity of plants eradicated suggests that marijuana is not being exported from Costa Rica. Costa Rica does not produce other illicit drug crops.

**Drug Flow/Transit.** Overland shipments transiting Costa Rica are more likely to be transported in smaller quantities regardless of vehicle size as opposed to the large loads transported solely in tractor-trailers that drug traffickers used before 1999. GOCCR officials have made numerous seizures at the international airport in San Jose, typically from departing passengers. Along with traditional body carrying methods, some novel modes of concealment have been uncovered by counternarcotics law enforcement personnel. The recent trend of increased trafficking of narcotics by maritime routes has continued, with indications that enhanced patrols by the Costa Rica Coast Guard and regular joint U.S.-Costa Rican operations have caused maritime traffickers to move their northbound routes farther out into the Eastern Pacific. Costa Rican internal drug use is mostly limited to marijuana, cocaine, and crack, but ecstasy is increasing in popularity among young adults. LSD has also been detected.

**Domestic Programs (Demand Reduction).** Costa Ricans have become 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 Barra del Colorado, and along the southern border. The National Drug Prevention Council (CENADRO) oversees drug prevention efforts and educational programs throughout the country,



primarily through well-developed educational programs for use in public and private schools and community centers. CENADRO and the Ministry of Education expanded coverage of specific demand reduction materials by inaugurating educational materials for middle school-level students in 2001. Materials for high school students are printed and will be distributed in early 2002. With that distribution, all public school children will be exposed to demand reduction instruction from primary school through graduation. 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 over 500 public and private schools. It celebrated its ten-year anniversary in 2001 and is considered one of the top international DARE programs.

#### IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** The principal U.S. counternarcotics goals in Costa Rica is to reduce the transit of drugs to U.S. markets. Means of achieving that goal 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 by strengthening enforcement of controls against such activities and encouraging the enactment of stricter controls on offshore banking; supporting efforts to locate and destroy marijuana fields; and the continued targeting of high level trafficking organizations operating in Costa Rica. Specific initiatives include: continuing to implement the bilateral Maritime Counterdrug Cooperation Agreement; enhancing interdiction of drug shipments by improving the facilities 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 by providing specialized training and equipment to the Judicial Investigative Police Narcotics Section, the Drug Control Police, Joint Counternarcotics Intelligence Center (CICAD), the National Police Academy, and the Customs Control Police; and increasing public awareness of dangers posed by narcotics trafficking and drug use by providing assistance to Costa Rican demand reduction programs and initiatives.

The single formal border crossing between Costa Rica and Nicaragua at Penas Blancas provides a unique opportunity for law enforcement officials to reduce northbound overland cocaine trafficking through Central America via the Pan-American Highway. There are no secondary crossing points or alternative routes on the Costa Rican-Nicaraguan border to bypass this main checkpoint, except for routes that require use of a four-wheel drive vehicle. The U.S. Embassy is working with GOCR law enforcement authorities to establish an enhanced port-of-entry/exit facility for greater border control. This facility will have the potential for future expansion to allow for southbound inspections seeking traffic in illegal arms, currency, precursor chemicals and stolen equipment. Groundbreaking for this facility is scheduled for April 2002. In early 2001, this initiative will be complemented by a Mobile Enforcement Team possessing specialized vehicles and equipment, which officers trained by the U.S. Customs Service will staff.

**Bilateral Cooperation.** The Department of State has allocated \$1.9 million appropriated under Title III, Chapter 2, of the Emergency Supplemental Act, 2000, as enacted in the Military Construction Appropriations Act (P.L. 106-246) for expanded assistance to the Costa Rican Coast Guard consistent with the MOU on Maritime Assistance and the Maritime Agreement. This assistance is designed to enhance Costa Rican and U.S. maritime security through the development of a professional Coast Guard. In 2001, the U.S. delivered two U.S. Coast Guard 82-foot patrol boats and four new 24-foot rigid hull inflatable fast boats, provided numerous U.S. Coast Guard training programs, signed a work order with the U.S. Army Corps of Engineers for the construction of a Coast Guard Station in Quepos on the Pacific coast, supported a U.S. Coast Guard long-term training team deployment, and established a maritime engineer position.

The U.S. Embassy sponsored two Costa Rica-specific advanced money-laundering seminars for public and private institutions and officials as well as an advanced training seminar on precursor chemicals. The U.S. Southern Command, the Joint Interagency Task Force-East, and the U.S. Embassy sponsored the

first regional Central American Counterdrug Cooperation Conference in San Jose, which took place on September 10-13, 2001. The conference promoted counternarcotics cooperation with and among the Central American countries.

The United States acquired upgraded computers, peripheral equipment, and software for the U.S. Embassy for the Ministry of Public Security's Drug Control Police, Air Surveillance Section, and National Police Academy; the Judicial Investigative Police Narcotics Section; the Public Prosecutor's Economic Crimes Section; the Joint Intelligence Coordination Center; and the Ministry of Public Health's Precursor Chemicals Unit.

**The Road Ahead.** The U.S.-sponsored, \$2.2 million Costa Rican Coast Guard Development Plan continues to be the main focus of U.S. counternarcotics assistance. The current plan is scheduled to be completed in July 2003. Subject to the availability of funds, the United States will continue to provide technical expertise, training, and funding to professionalize Costa Rica's maritime service and enhance its capabilities to conduct U.S. Coast Guard-style maritime law enforcement, marine protection, and search and rescue operations within its littoral waters in support of the bilateral Maritime Counterdrug Cooperation Agreement. The United States seeks to build upon the on-going successful maritime experience by turning more attention and resources to land interdiction strategies, including expanded coverage of airports and sea port facilities. The centerpiece of this expanded focus will be the construction of the Penas Blancas Inspection Station. In conjunction with the Inspection Station, GOCR counternarcotics agencies' interdiction capabilities will be enhanced through the in-country presence of a USG technical advisor from the U.S. Customs Service, anticipated in 2002. The United States will cooperate with the GOCR in its efforts to professionalize its public security forces and implement and expand controls against money laundering.

## El Salvador

### I. Summary

As a matter of policy, the GOES does not encourage or facilitate the illicit production or distribution of narcotics or other controlled substances; however, El Salvador remains a transit country for narcotics bound for the United States, specifically cocaine, crack cocaine, marijuana, and heroin. To date, evidence does not suggest that the drugs that transit El Salvador have a significant effect on the United States, but El Salvador remains a country of concern. El Salvador is only capable of producing limited amounts of cannabis for domestic consumption due to climate and soil conditions, thus the focus of counternarcotics efforts is on trafficking and its associated criminal activities. The performance of the Anti-Narcotics Division (DAN) of the National Civilian Police (PNC) was poor in 2001, but changes recently were implemented within the chain of command and the structure of units to strengthen performance, reduce corruption, and increase the overall capabilities of the division. In addition, PNC Director Mauricio Sandoval has declared that counternarcotics enforcement will be the priority for 2002. El Salvador is a party to the 1988 UN Drug Convention.

### II. Status of Country

El Salvador lies along the Pacific coastline of Central America, bordering Honduras to the north, and Guatemala to the West. Recovering from a long and bitter civil war that ended in 1992, the country has been devastated in recent years by earthquakes. A long and open coastline, accompanied by numerous river routes and unmarked roads built by guerrilla units in the civil war, create an environment in which the quantities of narcotics seized do not reflect the level of actual trafficking. Main traffic routes are the Pan-American and Littoral highways, as well as Salvadoran territorial waters in the Pacific Ocean.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The GOES has a National Anti-Narcotics Plan (PNAD) in draft that still needs final revisions and the President's approval, however legislative reforms have been approved. As a result, undercover operations are now authorized by law and the names of undercover agents may be kept undisclosed in court proceedings. The Attorney General's Office also may now request seized assets for the DAN to use during legal proceedings.

**Accomplishments.** The GOES participated with the United States and with other Central American countries in regional operations and exercises such as "Operation RUEDAS" for land-bridge interdiction and "Operation ALAS" for airport interdiction. U.S. aircraft flying out of the Forward Operating Location (FOL) in El Salvador played a significant role in the seizure of more than 20 tons of cocaine. The DAN and the Financial Investigations Unit (FIU) have seized more than U.S. \$500,000 in cash en route to Panama. The DAN's Precursor Chemical Control Unit also reported the seizure of various precursor chemicals. The Salvadoran Customs Directorate implemented "Plan 100" and began inspecting 100 percent of all containerized traffic coming into the country. The construction of a vehicle inspection facility at the El Salvador-Honduras border in early January 2002 will enhance this effort. In early 2002 GOES Customs and PNC personnel will also form integrated teams to increase border security.

Under guidance from the DEA and INL, the GOES has created a Specialized Anti-Drug Investigative Group (GEAN) within the DAN which will work closely with DEA to conduct complex criminal investigations targeting the highest level of drug violators operating in El Salvador and throughout the region. The members of this unit have been polygraphed and trained by the DEA.

**Law Enforcement Efforts.** The DAN seized 18 kilograms of cocaine in 2001, which represents a significant decrease from the 422 kilograms seized in 2000 and the 23.8 kilograms seized in 1999. On the other hand, the 10.5 kilograms of heroin seized in 2001 represent an important increase compared to the 6.9 kilograms seized in 2000. It should be noted, however, that the DAN suffered in 2001 from leadership turnover, corruption, and lack of resources—highlighted by the replacement of two chiefs and the reassignment of 52 DAN agents after they failed a polygraph test. The new DAN chief has developed an operations plan to increase seizures, but the division as a whole still lacks equipment, training, personnel, and logistical resources.

Other law enforcement efforts have been active and successful. The Grupo Cuscatlan, an inter-agency cooperative body established in 2000 that incorporates civilian law enforcement and military elements, has contributed to various seizures of cocaine by the Guatemalan authorities by sharing information and escorting suspicious aircraft to Guatemalan territory. Coordination between the GOES and the Government of Guatemala led to the seizure of more than 150 kilograms of cocaine. The U.S. Navy and Coast Guard P-3 aircraft flying out of the FOL in Comalapa also helped seize more than 20 metric tons of cocaine on the high seas.

**Corruption.** With USG assistance, the GOES has established an Internal Affairs Unit within the PNC and an Anti-Corruption Unit in the Office of the Attorney General. Further, the GOES is in the process of setting up an Office of Government Ethics to control, identify, and prosecute public corruption. The USG provided specialized training to prosecutors and investigators of the Internal Affairs and Anti-Corruption units as well as to judges.

**Agreements and Treaties.** El Salvador is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. There is no bilateral mutual legal assistance agreement between the GOES and the USG, and most of the cooperation between the GOES and the USG, and formal cooperation between the governments has generally been through diplomatic channels. However, the USG and GOES have signed yearly agreements on narcotics control, under which the U.S. provides assistance to El Salvador. The U.S. and El Salvador also are negotiating a new extradition and stolen vehicle treaties, as well as beginning discussions on a future maritime treaty. The extradition treaty will replace the current extradition treaty dating from 1911. On December 19, 2001, the Salvadoran Ministers of Foreign Affairs and Governance met with the U.S. Attorney General to discuss law enforcement cooperation, including prisoner transfer and criminal deportee arrangements.

El Salvador is a party to a collective mutual legal assistance agreement among all Central American countries and Panama. El Salvador has signed the UN Convention against Transnational Crime.

**Cultivation/Production.** El Salvador produces limited amounts of cannabis for domestic consumption, but unfavorable climate and soil conditions do not allow the cultivation of coca plants. The level of precursor chemical production is unknown, but seizure levels demonstrate this is a minor consideration. As a result, the GOES focuses its counternarcotics efforts on drug trafficking and associated criminal activity.

**Drug Flow/Transit.** The Pan-American and Littoral Highways seem to be the land routes preferred by the traffickers; however, “go-fast” boat activity has increased along the Pacific coast. In 2001, P-3 aircraft flying out of the FOL have detected various “go-fast” boats, and the DAN found two abandoned “go-fast” boats along the coast. The amount of drugs that transit Salvadoran airspace is unknown, but the number of suspicious aircraft detected has increased.

**Domestic Programs (Demand Reduction).** The Salvadoran Anti-Drug Commission (COSA) has drafted a National Anti-Drug Plan (PNAD) which includes a demand reduction component. Under the PNAD, the GOES will implement various demand reduction programs including radio and television campaigns. In addition, the GOES will initiate a study into the origins of youth behavioral problems as they affect the likelihood of drug use, and efficacy of current drug prevention programs. FUNDASALVA,

an NGO dedicated to the prevention and treatment of substance abuse, is also developing a national study of drug consumption and use.

Salvadoran police officers draw on the U.S. Drug Abuse Resistance Education (DARE) program for their counternarcotics presentations at schools, while the Ministry of Education uses the Military Information Support Training (MIST) program to warn children of the dangers of drugs through posters, billboards, pamphlets, cartoons, and ads.

### **IV. U.S. Policy Initiatives and Programs**

**U.S. Policy Initiatives.** The U.S. strategy in El Salvador is to assist in the professional development of the GOES' law enforcement agencies, and ensure a transparent criminal justice system. To this end, the United States seeks to enhance Salvadoran maritime and air interdiction capabilities by providing equipment such as U.S. Coast Guard cutters, boarding equipment, and small boats to enhance the Salvadoran Navy's ability to patrol the Pacific Coast, as well as training for air-traffic controllers. Finally, equipment and training is being provided to the Attorney General's Office to assist in dealing with corruption, as well as the successful prosecution of criminal offenders. The USG also plans to assist in the proposed studies on drug abuse, as well as conduct an evaluation of current demand reduction programs and promote drug prevention initiatives.

**The Road Ahead.** The USG will be working closely with the GOES and NGOs to gain final approval of the PNAD. While the actions of law enforcement and government agencies in weeding out corruption is encouraging and the level of dedication to facing and dealing with the counternarcotics issue is more than evident, trafficking is nonetheless expected to grow. As trafficking increases, so will drug-related crimes.

# Guatemala

## I. Summary

Guatemala remains a major drug-transit country for South American cocaine en route to the United States and Europe. Cocaine transits Guatemala by air, road, and sea. In 2001, various U.S. agencies worked closely with the Government of Guatemala (GOG) to increase the capabilities of GOG law enforcement authorities to counter the constant flow of drugs transiting the country. The GOG noted an increase in cocaine and heroin seizures in 2001. However, the chronic problems of widespread corruption, acute lack of resources, and frequent personnel turnover in law enforcement and other GOG agencies continued to undermine the GOG's ability to address narco-trafficking and organized crime. The USG worked with the GOG to professionalize the National Civilian Police's Anti-Narcotics Operations Department (DOAN), the main counternarcotics force. The GOG, with U.S. assistance, provided training to promote effective integrated law enforcement, as well as counter-narcotics training programs to continue to improve the quality of the DOAN and to enhance drug control operations. There are also similar efforts to improve the training for narcotics prosecutors, judges, and customs officials. The GOG has recognized its growing consumption problem and is supporting an active demand reduction program. The GOG enacted comprehensive money laundering legislation and worked with the USG to develop the implementing regulations. (See the separate Money Laundering section of this report.) Guatemala is a party to the 1988 UN Drug Convention.

## II. Status of Country

Guatemala is the preferred country in Central America for shipment of cocaine to the United States. Guatemalan law enforcement agencies interdicted 4.1 metric tons of cocaine in 2001; an increase over confiscations in 2000. Narco-traffickers continue to pay for transportation services with drugs, causing domestic consumption of drugs and related crime.

Notwithstanding the increase in seizures, widespread corruption, high turnover of law enforcement personnel, and a lack of resources plagued counternarcotics efforts in 2001. Since the Portillo administration took office in January 2000, there have been three Ministers of Government, three directors of the National Civilian Police (PNC), and six different directors of the DOAN. This constant upheaval made long-range planning for operations and investigations nearly impossible and working relationships very difficult. With almost no air assets, the Guatemalan police have problems adequately supporting their eradication and drug interdiction efforts. They often have trouble providing even basic equipment and provisions to DOAN agents in the field. This is exacerbated by their continual expansion into more areas of the country. Corruption is endemic in all sectors and levels of the government and continued to significantly hinder counternarcotics operations during 2001.

The DOAN, which receives significant training and support from the USG, is considered to be one of the best-trained and armed units in the PNC. Along with other GOG entities, it regularly cooperates with U.S. law enforcement agencies in combating narco-trafficking. However, corruption and a shortage of resources have had and adverse affect. The Minister of Government (the third in two years) has said he will clean up the corruption in the DOAN and the rest of his ministry.

The Public Ministry's special narcotics prosecutor's offices, which receive USG training and assistance, achieved convictions for minor narcotics offenders in 2001. Unfortunately, successful prosecution of major narco-traffickers has been limited. Corruption, intimidation, and lack of resources in the judiciary, as well as the absence of formal criminal conspiracy laws in Guatemala, are some of the primary reasons for the lack of success in prosecuting and convicting major traffickers.

Guatemala grows minimal quantities of opium poppy and marijuana. Apart from crack and marijuana for local consumption, narcotics are generally not processed in Guatemala.

Diversion of precursor chemicals is considered to be a problem in Guatemala. While the GOG has legislation identifying 46 precursor chemicals, it has still not passed the implementing regulations that would make the legislation useful for enforcement and prosecution purposes. At present, however, even if regulations are issued the GOG lacks the personnel and resources to successfully control precursor chemicals.

The GOG has an aggressive demand reduction program aimed at a growing substance abuse problem. As part of its five-year master plan adopted in 1998, Guatemala's National Drug Coordinating Agency, SECCATID, has continued to work closely with the USG and international organizations, including the UN and the OAS, in providing seminars, surveys, and education designed to decrease consumption and raise public awareness about the plague of consumption and narcotrafficking.

### III. Country Actions against Drugs in 2001

**Policy Initiatives.** In 2001, Guatemala signed four Letters of Agreement (LOAs) with the United States, under which the United States is providing assistance for counter-narcotics and demand reduction. The GOG increased DOAN staffing by almost five percent and has continued to recruit a limited number of agents for new posts in some of the more remote areas of the country. All DOAN recruits are now screened via a polygraph unit that was created with USG funding. The GOG has used U.S. assistance to convert the Regional Canine Training Center into a Regional Counternarcotics Training Center. This center places special emphasis on regional training and initiatives. In the last year, over 400 students from ten countries participated in training provided by local and international instructors. Another major accomplishment was the activation of a direct link to an unclassified U.S. counternarcotics information aerial tracking service. This service has already led to a number of seizures and it is hoped that this U.S.-funded initiative will allow the DOAN to plan and execute more effective operations.

For the second consecutive year, the Congress passed legislation that allowed joint U.S.-Guatemalan military anti-narcotics operations. A joint operation in 2001 provided the DOAN with extensive and high quality training and the GOG executed the largest counternarcotics operation in its history, in which over 220 police and 50 prosecutors participated. This operation disrupted one of the country's largest narco-trafficking operations. The GOG also formally ratified the Inter-American Convention Against Corruption in 2001.

The Minister of Government and the Attorney General recently signed an agreement to form a multi-agency task force to include prosecutors, police, and customs officials, that will work on high-level corruption cases. The agreement also addresses police-prosecutor cooperation, which is a systemic problem in the Guatemalan justice system.

The Guatemalan Supreme Court continued to develop special courts that are staffed with highly qualified personnel to handle sensitive cases, mostly drug related, that regular courts cannot. The Supreme Court recently signed an LOA with the United States, under which the United States will provide assistance to improve these courts as well as the use of seized assets and the destruction of seized drugs.

**Accomplishments.** Cocaine seizures increased by 193 percent and heroin seizures by 73 percent in 2001. Notable cocaine seizures include: 455 kilograms of cocaine from small aircraft in January; 937 kilograms of cocaine from a barn in Escuintla in February; and 400 kilograms concealed in refrigerators in a container at the port of Santo Tomas de Castilla in May.

The Port Security Program (PSP) opened operations in Puerto Quetzal in 2001, giving it a presence in all three major ports. The PSP is a self-financed program funded by fees levied on shipping companies that fosters cooperation between the GOG, the USG, and private shipping companies operating in Guatemala. It provides monetary and technical assistance to the DOAN agents who operate in the ports. The USG

provides technical, logistical, and training for this program, which has yielded a number of large drug seizures in past years.

The rapid response Anti-Smuggling Unit (ASU) has been operating for a year and has made eight drug seizures. The ASU randomly visits the ports, land border entry points, and highway checkpoints in an effort to increase seizures by using the element of surprise and selectivity. The Commercial Freight Tracking System (CFTS) border inspection station opened this year and is staffed by 15 members of DOAN, along with two drug detection canines. This inspection station is the first of five that are being constructed in different Central American countries and is dedicated to inspecting commercial freight along one of the principal highways in the region. The U.S.-funded canine program in Guatemala has continued to succeed, with at least ten seizures attributed to it in the last year. The GOG used U.S. funding and technical assistance to provide training to over 1,000 judges, justices of the peace, prosecutors, and police on the way the narcotics activity laws function.

**Illicit Cultivation/Production.** Guatemala has significant cannabis cultivation in the northern state of Peten and minimal opium cultivation primarily in the western highlands. The GOG continued to manually eradicate cannabis and opium poppy. However, the lack of air assets for reconnaissance and transportation of personnel make eradication a very difficult endeavor in a country with mountainous terrain and limited infrastructure. Even so, eradication of cannabis plants increased by 25 percent, while eradication of opium poppy remained constant. There is very little indication that Guatemala has large cocaine laboratories or processing sites for other illegal narcotics.

**Drug Flow/Transit.** The Pan American Highway is a major conduit for drugs traveling north to Mexico and eventually the United States. The DEA also reports that a number of "mules" who transited Guatemala were subsequently caught in U.S. airports with cocaine and heroin in or on their bodies. Last year's trend of a decrease in detected air transshipment of cocaine and an increase in shipments via boats continues. The use of commercial containers, both land and maritime, offered the best opportunity for smuggling larger quantities of drugs through Guatemala. It is also the area where the GOG's interdiction efforts have been least successful, primarily due to the corruption that is endemic to all three major ports. Colombian narco-traffickers and to a lesser extent Mexican narco-traffickers continue to operate in Guatemala, even though Guatemala transport groups do almost all of the work. Up to ten percent of the cocaine shipped through Guatemala is left behind as payment for services rendered.

**Law Enforcement and Transit Cooperation.** Guatemalan law enforcement officials work enthusiastically with U.S. law enforcement authorities to curtail the flow of drugs through Guatemala, especially in instances where the USG can provide funding and technical assistance. The DEA and several other U.S. law enforcement agencies have active collaborative relationships with Guatemalan law enforcement authorities. Guatemala continues to exchange information and maintain links with Joint Intelligence Coordination Centers (JICC) throughout Central America and with the El Paso Intelligence Center (EPIC). Guatemala actively participated in the Mayan Jaguar joint counter-drug operations that included the DEA, the U.S. Coast Guard, and the U.S. Army.

**Domestic Programs (Demand Reduction).** The GOG continues to support anti-drug education and rehabilitation programs. In 2001, SECCATID implemented a variety of projects as part of their comprehensive and aggressive demand reduction strategy. Through the National Program of Preventive Education, SECCATID trained 533 more instructors this year throughout the country using the "train the trainer" concept. SECCATID held almost 300 training and educational events in 2001 in which almost 300,000 people participated. The vast majority of the participants were students under the age of 18, although parents, educators, GOG employees, and community leaders also benefited from SECCATID's efforts.

In 2001 SECCATID developed and distributed anti-drug educational materials, including thousands of pamphlets, bookmarks, posters, and booklets with anti-drug messages. The GOG agreed to provide SECCATID with television and radio programming to air anti-drug messages and the USG provided the financing to produce videos and cassettes used in radio and TV demand reduction campaigns.



SECCATID conducted a countrywide drug awareness drawing and writing contest on prevention issues among children of all ages. This contest allowed students to express their views on the drug problem and strengthened prevention strategies in the country. The USG and GOG are jointly publishing a notebook of winning essays and drawings. In addition, a local NGO, "Casa Alianza," selected five posters from the winners and printed 40,000 of them for a demand reduction campaign.

The GOG has agreed to work with the USG on performing a comprehensive and scientific survey of drug use in Guatemala. This sort of survey will allow the GOG to monitor and adjust its activities in the coming years. SECCATID signed an agreement with the GOG Ministry of Defense and the GOG Social Security Institute to implement jointly anti-drug programs in rural areas.

**Law Enforcement Efforts.** Drug seizures are up significantly and the DEA reports that the DOAN is very cooperative on individual basis. However, DOAN's day-to-day job of interdicting narcotics and then investigating the groups behind it on their own is deficient and could be improved substantially if there were less corruption and impunity and more leadership and funding for the police. Very large shipments of cocaine and heroin regularly pass through Guatemala without any law enforcement intervention. There have even been increasing reports that DOAN agents are sometimes involved in stealing entire shipments or significant portions of shipments for resale. The GOG must address this type of corruption and leadership problem to reduce narco-trafficking significantly in Guatemala.

On the positive side, the police have managed to expand the DOAN by about five per cent in the last year and continue to receive world-class training from the USG and the international community. The GOG has fully staffed the Commercial Freight Tracking Station that recently opened on the Guatemala-Salvadoran border. The DOAN is also receptive to working with other nations in the Central American region and does so with fair success on a working level. This is best seen in the Regional Counter-narcotics Training Center run by the Guatemalans with USG advice and financing. The center provides training in all aspects of law enforcement related to narco-trafficking, including courses on investigations, small unit tactics, information analysis, and human rights.

**Corruption.** Guatemala ratified the Inter-American Convention Against Corruption in 2001. Corruption is the primary impediment to increasing the effectiveness of the counter-narcotics efforts in Guatemala. No one is immune from the corruption and there are regular allegations of police, prosecutors, and judges being corrupt. High levels of impunity and intimidation coupled with corruption significantly reduce risks to narco-traffickers. However, a high-level judge who in 2000 released five narcotraffickers was arrested this year, and her case is winding through the judicial system. Guatemala has been wracked by a series of high-level corruption scandals that have allegedly involved the highest levels of the government. The GOG's efforts to fight corruption have been generally ineffective and have contributed to disillusionment with the government's commitment to solving this problem.

The Anti-Corruption Prosecutor's Office in the Public Ministry (MP) has had some success in cases dealing with fairly low-level officials such as the conviction of the mayor from the small southwestern city of Chiquimulilla, who was convicted of stealing city funds. However, the office has not been very effective in cases dealing with senior government officials, due to the political pressure and intimidation these individuals bring to bear on their cases.

The USG facilitated the formation of a diverse group of 11 influential individuals from all sectors to attend Transparency International's Anti-Corruption Seminar in Prague. In general, the group returned from the seminar better informed and willing to work on the issue of corruption, which is seen by many Guatemalans as the root cause of most of their problems. While immediate results are not expected, the fact that senior government officials including the vice president attended along with influential members of the private sector provides hope that anticorruption efforts will continue to receive attention in the coming years.

**Agreements and Treaties.** Guatemala is a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, the 1971 UN Convention on Psychotropic

Substances, and the 1988 UN Drug Convention. It is also a party to 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 counter-narcotics agreements, including information exchanges, with Mexico (1989), Venezuela (1991), Argentina (1991), Colombia (1992), Ecuador (1992), Peru (1994), and Spain (1999). Most GOG law enforcement efforts have been fully consistent with the goals and objectives of the 1988 UN Drug Convention. The extradition treaty between the GOG and the USG dates from 1903; a supplementary extradition treaty adding narcotics offenses to the list of extraditable offenses was adopted in 1940. Extraditions in recent years have required a significant expenditure of effort and time on the part of both the USG and the GOG. Instead of formal extraditions, the GOG is able to expel U.S. fugitives on the basis of violations of Guatemalan immigration laws. Intermittent negotiations on a bilateral Maritime Counterdrug Agreement occurred between 1997 and 1999, but there has been no significant progress since then. In 2001, Guatemala ratified the UN Convention against Transnational Organized Crime, as well as the Inter-American Convention Against Corruption.

#### **IV. U.S. Policy Initiatives and Programs**

**Policy Initiatives.** The U.S. strategy in Guatemala continues to focus on strengthening the GOG law enforcement and judicial sector through training and the provision of equipment and infrastructure, especially for units directly involved in combating narcotics trafficking and other international crimes that directly affect the United States. Special emphasis has been directed toward management skills, leadership, human rights, investigative techniques, and case management issues. The U.S. strategy also is aimed at reducing the level of corruption in Guatemala by implementing training, education, and public awareness programs. Specifically, U.S. efforts will focus on interdiction, corruption, money laundering, high impact courts, task force development, and negotiating a maritime agreement. The United States will also energetically continue to assist the GOG in improving the successful Regional Counternarcotics Training Center and the Anti-Smuggling Unit.

**The Road Ahead.** The deteriorating economy and the increasing levels of corruption will make it very difficult for Guatemala to make serious inroads against narco-trafficking in 2002. Violent crime is on the increase, and what limited resources the police, prosecutors, and judiciary have will probably be concentrated in that area as the current government begins to look forward to the elections in two years. This makes USG training and assistance even more important than previous years. The current confrontation in the Guatemalan Congress caused by the lack of desire to compromise by both the ruling and opposition parties makes passage of new counternarcotics legislation more difficult. The GOG plans to increase public education and demand reduction efforts, bringing in more private and public funding and expanding regional cooperation. Cocaine abuse, primarily crack, is expected to continue to grow as traffickers trade a percentage of cocaine shipments for transportation and security services. Domestic cocaine consumption will increase drug-related domestic crime, adding to the burden on the police.

The recently enacted money laundering legislation could prove to be an avenue for eventually bringing some of the larger narco-traffickers to justice, since it contains limited conspiracy provisions for the first time.

*Guatemala Statistics**(1993–2001)*

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Opium</b>									
Potential Harvest (ha)	0	0	0	10	7	0	39	50	438
Eradication (ha)	1	1	1	5	3	12	86	150	426
Cultivation (ha)	1	1	1	15	10	12	125	200	864
Potential Yield (mt)	0.00	0.00	0.00	0.20	0.10	0.00	0.40	0.50	4
<b>Cannabis</b>									
Potential Harvest (ha)	unk	unk	0	82	100	41	50	100	unk
Eradication (ha)	43	32	52	58	50	213	250	100	200
Cultivation (ha)	43	32	52	140	150	254	300	200	unk
Potential Yield (mt)	1	1	0	10	12	5	6	12	
<b>Seizures</b>									
Cocaine (mt)	4.1	1.4	10.1	9.2	4.3	4.0	1.0	2.0	7.6
Cannabis (mt)	0.52	0.03	0.65	0.42	0.34	16.40	0.50	1.76	2.1
Heroin (kg)	16.00	9.30	52.00	3.65	16.20	7.80	0.00	0.00	0.00
Opium (kg)	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0
<b>Arrests</b>	479	842	472	928	188	189			

# Honduras

## I. Summary

The transshipment of cocaine through Honduras using air, land, and maritime routes continued in 2001. Although there is no clear evidence that drugs entering the United States from Honduras are in an amount sufficient to have a significant effect on the United States, the entire region of Central America, of which Honduras is a part, remains a region of concern to the United States. Overall the Ministry of Security and Honduran military took a more active role in counternarcotics operations in 2001, but available funds to implement a Government of Honduras (GOH)-approved counternarcotics master plan were limited. To assist, the United States continued to provide funding, training, and technical support to the GOH's counternarcotics agencies to improve their law enforcement capabilities. In addition, the Honduran Congress passed legislation to implement a Constitutional Judicial Reform Amendment that is designed to improve the judicial sector and thus could increase the prosecution and conviction of criminals. Honduras is a party to the 1988 UN Drug Convention.

## II. Status of Country

Honduras produces a limited amount of marijuana, but the most popular illicit drugs used in Honduras are marijuana, inhalants, and to a much lesser degree, cocaine. Crack cocaine use is increasing along the north coast, in the Bay Islands, and in urban centers, and the first seizure of MDMA (ecstasy) occurred in December 2001.

Illicit drugs transit Honduras via air, land, and maritime routes. There are direct air and maritime links to U.S. cities and the Pan-American Highway crosses southern Honduras on the way to Mexico and the United States. The Honduran police and Navy have limited maritime assets to counter narcotics trafficking.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Government approved a Counter-Narcotics Master Plan, but the implementing regulations have yet to be approved. In late 2001, the National Congress enacted implementing legislation for a judicial reform constitutional amendment that, when finalized, is expected to reduce the arbitrary administration of justice. These reforms have the potential to decrease opportunities for criminals to manipulate the judicial system.

**Accomplishments.** As of December 1, 2001, 182 kilograms of cocaine, 714 rocks of crack, and 2,854.08 pounds of marijuana had been seized, and there had been 896 narcotics-related arrests. Progress was made in establishing a small maritime law enforcement facility in the Gracias a Dios Department, and the new Honduran Frontier Police detected cocaine transshipments through frontier posts. Law enforcement agencies also arrested three major drug trafficking organizations: the Rodriguez group, the Valle brothers, and Carlos Montes.

**Law Enforcement Efforts.** Counternarcotics efforts remain a high priority for government agencies, but evidence continues to mount of the corruption of these same agencies by narcotics traffickers and other criminals. During the year, the Attorney General removed the head of the Director for Counter-Narcotics (DLCN) investigative force on allegations of corruption. In response to a similar allegation, the Security Minister disbanded the Honduran Police Anti-Narcotics Force (GOAN), dismissing over 100 officers and transferring the function of the unit to the Frontier Police. It should be noted that no investigations have begun or charges filed in either of these cases.

**Corruption.** Corruption remains a major problem in all aspects of national life, and it is one of the most serious impediments to more effective counternarcotics efforts. The GOH has not conducted any effective investigations into criminal penetration of law enforcement and judicial units, although dismissals based on allegations of corruption have occurred. It is difficult to address corruption among public officials because all nationally elected officials enjoy legal immunity for all acts while in office. This creates a perverse incentive for people involved in illicit activity to run for office, and complicates enforcement efforts against suspected illegal narcotics activity.

**Agreements and Treaties.** Honduras is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. It has signed but not ratified the UN Convention against Transnational Organized Crime. The United States and Honduras signed a stolen vehicles treaty in November 2001, and a maritime counternarcotics agreement between the United States and Honduras entered into force on January 30, 2001. The agreement includes provisions for embarking law enforcement personnel on each other's vessels and advance authority to board Honduran flagged vessels suspected of narcotics trafficking, pursue suspect vessels into Honduran territorial seas to investigate suspicious activity, overflight of Honduran territorial seas for counterdrug surveillance, and authority to order suspect aircraft to land in Honduras. In addition, it provides for the exchange of information and coordination of joint counternarcotics activities. A 1909 extradition treaty between the United States and Honduras is in force, but the 1972 Honduran constitution prohibits extradition of Honduran nationals. The United States and Honduras also have an agreement in force on mutual cooperation to combat the production of and illicit trafficking in drugs. The GOH is an active member of the Inter-American Drug Abuse Control Commission (CICAD), and Honduras hosts the Regional Center for Counternarcotics Development and Judicial Cooperation in Central America (CEINCO). Honduras has counternarcotics agreements with the United States, Belize, Colombia, Jamaica, Mexico, Venezuela, and Spain.

**Cultivation/Production.** Marijuana remains the only illegal drug known to be cultivated in Honduras, but in December 2001 DEA agents assisted local authorities in the seizure of ecstasy tablets in Honduras. Aerial herbicides are not used for the eradication of illicit drug crops.

**Drug Flow/Transit.** The volume of drugs transiting Honduras continues to increase. The use of sea vessels departing Honduran ports on the Caribbean has encouraged the Port Authority to work with private companies and the USG to develop a port security program. Overland routes using commercial and private vehicles continue to be used to smuggle cocaine. Illegal landings in Gracias a Dios Department also are used to deliver cocaine for transshipment via small boat to La Ceiba, where it is transported onward for embarkation on commercial vessels by sea, or via trucks toward Guatemala.

**Precursor Chemicals.** The GOH continues to try to limit the illicit introduction of precursor chemicals into the country, but comprehensive regulations to control the sale of chemicals necessary for the processing of illegal narcotics have never been developed.

**Domestic Programs (Demand Reduction).** The GOH demand reduction entity "IHADFA"—the Institute for the Prevention of Alcoholism and Drug Addiction—is responsible for conducting prevention programs throughout the country. IHADFA also oversees programs operated by the Ministries of Public Health and Education, as well as by NGOs. The United States cooperates with the organization by funding educational and community-based programs for children at risk and "maras" (youth gangs). These programs include workshops and training seminars for parents, teachers, and community leaders, and the development of alternative activities for at-risk populations.

## IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** U.S. counternarcotics initiatives focused on enhancing GOH maritime interdiction capabilities and implementing bilateral counternarcotics and anticorruption projects. The U.S. and Honduras have signed a series of letters of agreement, under which the USG is providing

anticorruption assistance to key Honduran government agencies. Funds were disbursed to support acquisition of computers and conduct training. In addition, the Inter-American Bar Foundation launched an Anti-Corruption Pilot Program with the Attorney General's Office.

**Bilateral Cooperation.** The GOH and the United States progressed notably in bilateral cooperation on law enforcement initiatives in 2001. The canine program was expanded, and five more dogs were delivered in September 2001. Two vehicles were delivered to the joint intelligence coordination center, and a contract for constructing a counternarcotics and customs checkpoint on the Pan-American Highway was signed, with construction set to begin in early 2002. The United States supported DLCN efforts to deploy two 36-foot boats donated by the United States for counternarcotics purposes, and the United States will provide financial support to the DLCN, Ministry of Security, and the GOH Navy to establish a small maritime facility in Gracias a Dios Department. Representatives from the DLCN, the GOAN, and the Public Ministry's Organized Crime Unit also attended the USG Advanced Narcotics Investigators Course in Guatemala.

**The Road Ahead.** The Honduran government remains committed to the battle against the use or transport of illegal drugs. The Security Ministry and Attorney General's Office maintain a strong commitment to bilateral counternarcotics cooperation, and the Honduran military renewed its effort to increase its roles in counternarcotics operations. While the government has approved a counternarcotics master plan, funding is limited and U.S. assistance to accomplish key goals will remain crucial. Corruption, threats, and violence continue to pose a major challenge to effective law enforcement, but there has been progress in several key areas.

## Mexico

### I. Summary

Mexico faces a myriad of drug-related problems that include the production and transshipment of illicit drugs, money laundering, consumption and illicit firearms trafficking. Mexico continues to be a substantial source for illicit drugs in the U.S. drug markets, with Mexican-based trafficking organizations largely responsible for the distribution of illicit drugs and the growing sales of methamphetamine.

The Government of Mexico's (GOM) longstanding commitment to combat drug trafficking and related crimes resulted in tangible successes against the Arellano Felix Organization (AFO), the Carrillo Fuentes Organization (CFO), and the Gulf Cartel—widely considered the top three drug groups in the country. The GOM waged a public campaign to combat chronic corruption through the revitalized Secretariat of the Comptroller and Administrative Development (SECODAM), and sustained an aggressive eradication program while increasing the amount of drugs seized over 2000 figures. The Mexican military continued to play a pivotal role in nearly all facets of Mexico's counternarcotics effort.

Bilateral U.S.-Mexico law enforcement cooperation has improved under the Fox Administration, through information sharing and a willingness to explore new approaches, and this cooperation continued in 2001. However bilateral extradition problems were both solved and exacerbated when the Mexican Supreme Court's January 2001 decision affirming the GOM's authority to extradite Mexican nationals was counter-balanced later in the year with another Supreme Court decision that requires formal assurances that a prospective extraditee will not face a life sentence in the requesting country. The U.S. has protested this latter decision as contrary to the U.S.-Mexico extradition treaty. Mexico is a party to the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

### II. Status of Country

Mexico remains a major supplier of heroin, methamphetamine, and marijuana, and the transit point for more than one half of the cocaine sold in the U.S. Cocaine and other drugs are smuggled by every conceivable commercial and non-commercial conveyance: air and containerized maritime cargo; fishing vessels; flights to clandestine landing points; human couriers, (including undocumented migrants and children), and airdrops to go-fast boats off the Mexican coasts. While the Pacific coast of Mexico continued to be the favored route for maritime trafficking because of its lack of natural choke points, the events of September 11 caused the relocation of U.S. interdiction assets, leaving the area more open for drug smugglers. Other routes were favored as well, as an increase in non-commercial vessel movement to Mexico's Yucatan Peninsula through the western Caribbean, especially in the use of go-fast vessels was seen in 2001. With regard to air transport, although there were only three confirmed landings of trafficker aircraft whose flights originated outside of Mexico in 2001, internal air movement continued to overwhelm limited air interdiction and land response assets. Approximately 1,000 internal flights believed to be moving drugs, primarily marijuana, from South/Central Mexico to staging areas near the U.S. border were detected in 2001. The traffickers continued to use Guatemala and Belize as gateways to smuggle drugs overland through Mexico's southern border.

The Government of Mexico (GOM) is an active party to international efforts to control the importation and use of illegal drug precursors, however it has not yet overcome inter-institutional jurisdictional conflicts that have impeded aggressive pursuit of precursor chemical investigations.

Mexico-based transnational criminal organizations continue to assume distributorship control in the U.S. of methamphetamine and its precursor chemicals. Mexico is also a transit point for the movement of potassium permanganate, used in the purification process for cocaine.

Mexico's eradication program is one of the oldest and largest in the world. According to the GOM, the Mexican Attorney General's Office (PGR) and the military persisted in their successful aerial and manual eradication programs. Most drug crop cultivation occurs in small fields located in remote areas to evade detection and eradication. Since lands used for illicit cultivation are subject to seizure, many growers use public or communal lands to avoid tracing ownership. Also, crop field surveys taken during the past year indicate the continued expanded cultivation of a more robust marijuana plant throughout Mexico: growing to a height of two meters and with more flowering area, the plant has higher levels of THC and due to its resin-coated foliage is more resistant to herbicides. Further, although Mexico produces only about two percent of the world's opium, nearly the entire illicit crop is converted into heroin and shipped to the U.S. USG estimates of opium poppy production in Mexico during the past decade show potential yields of four to six metric tons of heroin annually.

The industrial-scale drug trade has transformed narcotrafficking into one of Mexico's deadliest businesses. Drug-related violence in Mexico moved beyond the traditional rivalries between trafficking organizations. These organizations have demonstrated blatant disregard for human life as the executions of law enforcement personnel, government officials, and innocent bystanders have increased. In February 2001, 12 people, including two minors, were killed by a group of armed men in Limoncito de Alaya, Sinaloa, a known center for cocaine trafficking and marijuana cultivation. In November, two federal judges and the wife of another judge were shot to death in an ambush. One of the judges had recently denied an appeal motion filed by a narcotics trafficker. In December, unknown assailants tortured and murdered a judge in an area of Chiapas that had been the site of 36 drug-related murders. .

In recent years international money launderers have turned increasingly to Mexico for initial placement of drug proceeds into the global financial system. Although measures enacted by Mexico since 1996 provide the legal framework for more effective control of money laundering, there is still much to be accomplished. (See Money Laundering chapter.)

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** President Fox acted upon his campaign promise to improve public security, end impunity, and stop public corruption by creating two new cabinet-level entities that support Mexico's counternarcotics efforts: 1) a Counselor for National Security who coordinates national security policy and 2) the Secretariat of Public Security which incorporates the National Public Safety System and the Federal Preventive Police (PFP). Fox also revitalized the SECODAM which investigates public corruption. The GOM has invested massive human, financial and material resources in its broad counternarcotics/anticrime effort.

Pursuing the Fox Administration's plan to strengthen federal law enforcement agencies and to combat corruption, the PGR began an organizational restructuring to which they added a policy focus. In November, the PGR finalized a strategic plan outlining the development of the institution. The strategic plan includes the establishment of six specific on-going priorities: making the PGR an efficient institution, combating impunity, combating corruption, combating narcotrafficking and organized crime head-on, promoting the protection of human rights, and assisting victims of crime. These six priorities are meant to achieve expeditious enforcement of justice by agencies and personnel devoted to the law and respect for human rights.

**Institutional Development.** Institutional weaknesses within national law enforcement organizations remain a serious obstacle to the efficiency and credibility of Mexican police forces. However in 2001, the Fox Administration placed a renewed focus on addressing these weaknesses and initiated a re-organization of key federal law enforcement agencies.

An integral part of improving Mexico's capacity to intercept illegal drugs has been the reorganization of the PGR. In early 2001, the administration focused on reforming the Federal Judicial Police (PJF). With dynamic leadership, increased resources, and intensive planning, a new Federal Investigative Agency (AFI)



was formally inaugurated in October to serve as the investigative arm of the PGR. The 3,500 person AFI incorporates the former PJF and personnel from other components of the PGR. To fulfill its mandate, AFI plans to increase its manpower to 8,000 agents and analysts by the year 2006. AFI management has actively pursued the resources and training to make it an effective and credible law enforcement body able to fight sophisticated drug and organized crime syndicates. The organization's plan contemplates the creation of a career ladder for federal agents that links training, years of service, and ascending levels of responsibility as prerequisites for advancement.

Another important change is the transformation of the PGR's Center for Drug Control Planning (CENDRO) into an independent intelligence analysis organization under the Office of the Attorney General. CENDRO's responsibilities are expanding beyond drug control to incorporate organized criminal activities including arms trafficking, terrorism, trafficking in children, stolen cars, money laundering, and kidnappings. CENDRO and AFI are in the process of upgrading their computer systems with USG assistance. The common thread in these projects is the provision of connectivity between different units and much improved analytic capability. In November, the U.S. and CENDRO completed a three-year project to provide a radio network for sensitive investigative units.

The National Public Safety System (SNSP), which coordinates training for Federal Preventive Police (PFP) as well as various state and local law enforcement entities, moved forward in its goal of creating regional police academies. These five regional academies have significantly enhanced training opportunities for Mexican federal and state police. In 2001, several thousand Mexican law enforcement personnel participated in U.S.-sponsored training courses.

In December, the Secretariat of National Defense (SDN) and the U.S. Department of State agreed on a training initiative to augment SDN counternarcotics surveillance missions to coincide with the 2002 delivery of four C-26 aircraft that the SDN was in the process of upgrading.

**Law Enforcement Efforts.** Mexico's counternarcotics enforcement actions included organized crime investigations, the arrest of important traffickers, sustained marijuana and poppy eradication, money laundering investigations, chemical diversion, and increased bilateral cooperation in air, land, and maritime drug interdiction. Operations "Landslide" and "Marquis" were bilaterally coordinated law enforcement actions that resulted in the arrest of traffickers and money launderers. The significance of these and other operations in 2001 was an unprecedented ability to share the most sensitive law enforcement intelligence without compromise. The joint U.S.-Mexico effort to create specially vetted PGR counternarcotics units insulated from corruption took on new life in 2001. These carefully vetted units hold the promise of improving the PGR's capability to investigate important drug trafficking cases and to eliminate the existence and toleration of corruption within the law enforcement sector.

**Arrests.** An intense Mexican law enforcement offensive throughout 2001 resulted in the arrest of 8,527 persons on drug-related charges, of which 8,365 were Mexican nationals. The GOM intensified its effort in locating and arresting narcotics traffickers from major cartels after the January escape of narcotics kingpin Joaquin "El Chapo" Guzman Loera from Puente Grande maximum-security prison in Guadalajara. For example:

- In May 2001, the ex-governor of Quintana Roo, Mario Villanueva Madrid was arrested after a two-year manhunt. Villanueva reputedly used his governorship to facilitate the transshipment of drugs and to launder drug money. He is in prison awaiting prosecution.
- In June, Alcides Ramon Magana (aka El Metro), was arrested in Tabasco by the military. He operated a cell for the Carrillo Fuentes organization (AFO) transshipping tons of cocaine into Mexico, allegedly under the protection of Villanueva Madrid.
- In March, an AFO cell headed by Rigoberto Llanez Guerrero (aka El Primo), a cousin of incarcerated AFO trafficker Ismael Higuera Guerrero, was dismantled by the military

in Mexico City. In addition to Llanez, AFO lieutenants Bernardo Araujo (aka El Jabali), Ariel Llanez Guerrero, and Alfredo Nahim Salman Aguilar were arrested.

- In April, military units arrested Gilberto Garcia Mena of the Gulf Cartel; 20 metric tons of marijuana were seized and 3 military officers, including a brigadier general, were arrested for complicity.
- In May, Adan Amezcua was arrested on money laundering charges. He joins his two older brothers, Luis and Jose de Jesus Amezcua, who remain in custody on narcotics-related charges. The Amezcua organization is notorious for trafficking and operating clandestine methamphetamine laboratories throughout Mexico.
- In August, Mexican military authorities apprehended Colombian drug trafficker Herbert Alberto Cruz Ruiz (aka Gino Brunetti). Cruz had links to the AFO and served as a key supplier of cocaine to the United States.
- In September, Arturo Guzman Loera (aka El Pollo), the brother of escaped trafficker Joaquin Guzman Loera, was arrested by the AFI in Mexico City. Arturo's arrest followed the capture of Ricardo Bonilla Arizmendi and Francisco Javier Cambero (aka El Chito), who helped Joaquin Guzman escape in January.
- In December, elements of the PGR's Organized Crime Unit and AFI captured Miguel Caro Quintero. Caro Quintero was designated a significant trafficker in June 2000 under the Foreign Narcotics Kingpin Act. He is wanted in both the U.S. and Mexico.

**Seizures.** Mexican law enforcement and military entities reported the following seizures of controlled substances in 2001: 29.3 metric tons of cocaine, 2007 metric tons of marijuana, 243 kilograms of heroin, 485 kilograms of opium gum, 396 kilograms of methamphetamine, and 18 clandestine laboratories.

**Illicit Cultivation and Eradication.** Illicit cultivation patterns are characterized by the use of small fields in remote locations on public lands. The cultivation area is widely dispersed across a large potential growing area in the western Sierra Madre mountains of Mexico. The GOM does not produce estimates of illegal drug crop cultivation; the USG estimates that Mexico's 2001 net opium poppy crop cultivation was approximately 4,400 hectares—about average for the past five years (except for the sharp drop recorded in 2000 due to serious drought conditions). This level of cultivation could have yielded some 71 metric tons of opium gum. At current conversion rates, these levels yield some 7 metric tons of heroin in 2001, less than two percent of world production. Cultivation was divided fairly evenly between northern growing areas (primarily Sinaloa and Chihuahua states) and the south (largely Guerrero state). On marijuana, approximately 4,100 hectares were cultivated (mostly in northern Mexico) with an estimated net production of 7,400 metric tons of cannabis, up slightly from 7,000 metric tons in 2000.

The U.S. and Mexico continued a joint study to refine the estimated yield of Mexican opium poppy plants. Preliminary results suggest a higher opium yield per hectare in Mexico than previously estimated. In the southern states of Guerrero, Oaxaca, Michoacan, and Nayarit, the yield is some 11 kilograms of opium gum per hectare, while in the northern growing areas of Sinaloa, Durango, and Chihuahua, the yield is estimated at approximately 21 kilograms per hectare. A bilateral team is evaluating the implications of these revised estimates which, when applied to the estimated net harvest area in past years, raise opium gum production in Mexico 30 to 50 percent per year. One of the findings of the study suggests that opium poppy cultivation techniques in the northern growing area are comparable to commercial agricultural practices, while in the south, the cultivation practices are comparable to subsistence farming.

In 2001, the military and the PGR continued their successful manual and aerial eradication and eradicated 18,784 hectares of opium poppy and 28,831 hectares of marijuana. The USG estimates that the overall impact of these efforts successfully eliminated from production some 10,299 hectares of opium poppy and 14,790 hectares of marijuana estimates

**Extradition.** In 2001, the GOM extradited 17 fugitives to the U.S., 11 for drug offenses. Among those extradited were: Arturo “Kiti” Paez Martinez, a designated kingpin; Isaias Hernandez Garza and Juan Hernandez Ibarra, heroin traffickers; Francisco Camarena Macias, a drug trafficker who transported cocaine through “narco-tunnels” in Douglas, Arizona; Christopher David King, and Miguel Angel Martinez Martinez.

In January 2001, the Mexican Supreme Court affirmed the Mexican executive branch’s absolute discretion to extradite Mexican nationals pursuant to Article 9 of the existing U.S.-Mexico extradition treaty. This decision resolved a contradiction between the Mexican Penal Code and the Extradition Treaty over whether Mexican citizens must be tried in Mexico for crimes committed abroad or may be extradited for trial in the country whose laws have been violated by their criminal activities.

In May, the Protocol to the bilateral extradition treaty entered into force; this facilitates the prosecution of criminals wanted in both countries by providing for the temporary extradition of fugitives prosecuted in one country to stand trial in the other country without waiting for the sentence to be carried out. This delay frequently frustrated efforts to bring defendants to trial in the U.S.

In October 2001, the extradition relationship suffered a significant setback when the Mexican Supreme Court ruled life imprisonment unconstitutional and, therefore, an exclusive bar to extradition for any fugitive facing a potential life sentence outside Mexico. Since the U.S. is generally not able to provide formal assurances to any country that a prospective extraditee will not face a life sentence (nor does it believe the U.S.-Mexico treaty requires such assurances), this decision has the potential to frustrate the extradition to the U.S. of the most serious criminals. In addition, the USG is concerned about an increase in extraditions delayed or denied over what appears to be overly technical legalistic analysis by the Secretariat of Foreign Relations (SRE) for the courts. The inability to address “harmless error,” such as mistakes in transcription, typifies the kind of scrutiny U.S. requests experienced.

**Demand Reduction.** Mexico faces an increased internal drug abuse threat related to drug trafficking. According to a GOM report highlighted during the Fourth Annual U.S.-Mexico Binational Demand Reduction Conference, the consumption of cocaine increased over 500 percent in Mexico between 1991 and 2000. Additionally, the use of heroin, crack, and methamphetamine also rose significantly: The Mexican study found that cocaine replaced marijuana as the drug of choice among young consumers. The GOM has given special attention to the northern border where the incidence of drug abuse is as much as three times the national average. Demand reduction projects in the border cities of Tijuana and Ciudad Juarez have sought alliances with similar efforts in adjacent U.S. cities.

The Secretariat of Health, through its National Council Against Addictions (CONADIC), is coordinating countrywide prevention, treatment, and rehabilitation programs. CONADIC, working with an NGO, has 72 local offices across Mexico that conduct outreach programs engaging at-risk youth in after-school prevention programs. President Fox personally underscored his support for demand reduction at CONADIC’s national congress, citing the GOM’s three-tier emphasis on health, education, and law enforcement led by the Secretariats of Health and Education and the PGR.

**Corruption.** Pervasive corruption in Mexican law enforcement institutions continued as the greatest challenge facing the GOM in its efforts to fight drug trafficking and organized crime. A lack of police operational funds, and equipment and training combined with low salaries and limited career trajectories, have stymied efforts to reduce police corruption. Nevertheless, the GOM initiated several important changes aimed at eliminating the climate of corruption in the law enforcement sector. These include the eventual provision of adequate salaries and benefits and an emphasis on professionalization. The success of these efforts will require a sustained commitment at the highest levels to secure the budgetary resources necessary to implement and foster change.

The Secretariat of the Comptroller and Administrative Development (SECODAM) vigorously pursued allegations of official corruption in 2001. SECODAM has oversight over audits of federal agencies and focuses primarily on white-collar corruption, management training, and internal controls. It has the

authority to levy administrative sanctions against corrupt officials. In December, SECODAM unveiled a five-year plan to address public corruption. The plan has five strategic objectives: 1) prevent and reduce corrupt practices and impunity, 2) control and detect corruption, 3) punish corruption and impunity, 4) provide transparency and achieve citizen participation, and 5) responsibly administer public resources.

Notable efforts by Mexico to punish drug-related corruption include: the January arrest of prison officials who aided the escape of narcotics kingpin Joaquin “El Chapo” Guzman Loera from a high security prison; the arrests of state and local police in Mexicali in February when the Mexicali municipal police directly intervened to frustrate a PGR/military attempt to arrest AFO lieutenant Gilberto Higuera Guerrero; the April arrests of a brigadier general and two staff officers for their involvement with the Gulf Cartel.

In addition, the GOM has established several programs to deal with corruption. The National Public Safety System maintains a national police registry to prevent police officials dismissed for corruption from being hired by another law enforcement entity. The PGR expanded its vetting process in 2001 to track employees throughout their careers. In 2001, the PGR conducted suitability reviews of approximately 14,000 employees including federal prosecutors, police agents, forensic experts, and pilots assigned to counternarcotics duties. Of these, over 1,100 employees were dismissed for irregularities discovered during reviews that included polygraphs, toxicological tests for drug use, and questionable financial holdings. Employees removed after failing the screening, or who are found to be corrupt or incompetent, have no right to reinstatement.

**Agreements and Treaties.** Mexico is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Drugs as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. It also subscribes to regional counternarcotics commitments, including the 1996 Anti-Drug Strategy in the Hemisphere and 1990 Declaration of Ixtapa, which commit signatories to take strong action against drug trafficking, including controlling money laundering and preventing chemical diversion. Mexico has bilateral narcotics accords with 32 countries. Mexico has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, the Protocol against the Smuggling of Migrants, and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms.

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 entered into force in May 2001.

Mexico assumed the Vice Chair of the Inter-American Drug Abuse Control Commission (CICAD) in November 2001. In July 2001, Mexico and Colombia created a “High Level Group on Mexican-Colombian Justice and Security”, composed of the representatives from both countries’ ministries of Foreign Affairs, Defense, Navy and Attorneys General, among others. The two governments confirmed their commitment to fight organized crime and narcotics trafficking through information exchange, training, and mutual legal assistance.

**Bilateral Cooperation.** The U.S. and Mexico cooperate in a range of bilateral counternarcotics and law enforcement fora. Senior bilateral entities include the Legal Working Group of the Binational Commission (BNC) chaired by the Attorneys General of both countries. The Senior Law Enforcement Plenary Group also continues to meet twice yearly to monitor and guide bilateral actions at the practical and operational level. The High-Level Contact Group on Drug Control (HLCG), headed by the Office of National Drug Control Policy (ONDCP), the U.S. Attorney General, the Mexican Foreign Secretary, and the Mexican Attorney General was abandoned by mutual consent with the inaugurations of the two new Presidential administrations. The five working groups of the HLCG (money laundering, demand reduction, arms trafficking, interdiction, and precursor chemicals) continue to meet under the auspices of the BNC or the Law Enforcement Plenary. In 2001, both sides agreed to add two new working groups, cybercrime / intellectual property rights and migrant smuggling, to reflect the expansion of the law enforcement relationship between the two countries.

At the working level, the climate of cooperation within the bilateral law enforcement community has improved dramatically. For the first time in recent memory, both sides are sharing sensitive information on counternarcotics cases.

The Bilateral Group for Analysis and Information Exchange on Interdiction is notable for its success in seeking practical and mutually advantageous solutions to support interdiction efforts. In 2001, the group established and implemented a bilateral air-to-air communications plan to facilitate real time communications between air assets of both countries. Other achievements include joint post seizure exploitation and analysis involving maritime seizures that have yielded valuable information on the origin of drugs seized.

This exceptional cooperation has opened numerous training opportunities. The number of Mexican law enforcement officials receiving U.S.-sponsored law enforcement training tripled in 2001 in response to unprecedented demand from Mexican law enforcement agencies. Courses ranged from Basic Law Enforcement and Advanced Narcotics Training to Clandestine Lab Destruction, and VIP Protection. Ion scanner and night vision goggle training proved especially productive in the GOM's drug interdiction efforts.

The Mexican military played a key role in Mexico's counternarcotics efforts, both in interdiction and eradication. Both the Mexican Navy and Army have supported an expanded role in bilateral intelligence sharing, and the Mexican Army has increased its contact with the U.S. military via reciprocal visits. A visit in August 2001 to the U.S. by the Secretary of National Defense was followed by a visit to Mexico by the U.S. Chairman of the Joint Chiefs of Staff.

**Air and Maritime Interdiction.** According to GOM reports, twelve major maritime interdictions resulted in significant seizures of cocaine, primarily in international waters. These numbers include the seizure of the F/V Macel in late December 2001, which was transporting more than nine metric tons of cocaine.

The majority of the maritime seizures were along the west coast of Mexico, indicating a continuation of previous maritime shipping trends. A Colombian go-fast vessel attempted to smuggle over 1,000 kilograms of cocaine in September. In October GOM authorities discovered a shipping container carrying nearly 500 kilograms of cocaine in the Port of Manzanillo. A seizure of over nine tons from the F/V Macel occurred in December. In all of these maritime incidents, Mexico used ion scan technology to detect concealed cocaine and to provide probable cause for intrusive vessel and cargo space inspection.

A total of 1,028 suspect air targets were detected along the U.S.-Mexico border from January 1 through November 20. Of these, 554 were detected in Sonora, while 332 were detected in the Baja California area. This trend may indicate that smugglers may now prefer to transport their contraband via air to the proximity of the border. During the recent October-November period, U.S. Customs and Mexican air operations in these areas experienced a 300 percent increase in detection events. All targets detected in the northwest of Mexico were flights originating in Mexico, with the overwhelming majority of seizures being marijuana.

#### **IV. U.S. Policy Initiatives and Programs**

The USG seeks to work collaboratively with Mexico to investigate, apprehend, successfully prosecute and, when appropriate, extradite the leaders of the transnational criminal organizations, as well as to disrupt and dismantle cartel operations, to combat money laundering, arms trafficking, and precursor chemicals diversion, and to reduce the demand for drugs. U.S. counternarcotics programs are intended to support Mexico's national drug strategy and reform initiatives, and the U.S. will continue to work with CONADIC and NGOs to assist Mexico in addressing increased drug consumption.

The dramatically improved climate of cooperation between Mexican and U.S. law enforcement and military personnel presents an opportunity to bolster counternarcotics policies and programs that can multiply these efforts. U.S. programs strengthen Mexico's institutional capability to act against the

production and trafficking of illicit drugs and related crimes. These programs include support for the GOM's efforts to improve training for its personnel, to modernize the justice sector, and to promote anticorruption reforms. Critical to success are the identification and prosecution of corrupt law enforcement, military, political, and business leaders who protect traffickers.

**The Road Ahead.** The bilateral law enforcement relationship now encompasses the full range of law enforcement and national security issues. Growing recognition of the common criminal threat to our societies bodes well for further progress in developing complementary programs and policies, and as a result of the events of September 11, increased border vigilance is a priority for both countries. Coordinated drug control programs will contribute to that effort. The main objectives of U.S.-Mexico bilateral counternarcotics cooperation in 2002 include:

- Reduce the demand for illicit drugs in both countries by intensifying counternarcotics information and educational efforts;
- Target criminal organizations and those who facilitate their operations; work toward successful prosecutions;
- Improve bilateral coordination of chemical diversion investigations;
- Support Mexico's short-, medium-, and long-term institutional development strategy and related anticorruption initiatives;
- Continue training and technical cooperation programs with a special emphasis on the enhancement of investigative and prosecutorial skills; promote judicial modernization;
- Make effective use of extradition procedures and ensure that fugitives are brought to justice expeditiously and with due legal process;
- Enforce existing laws more effectively to detect and punish money laundering; enhance bilateral and multilateral exchanges;

The effectiveness of both 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. Successful law enforcement efforts will be rendered meaningless without strong judicial action. In addition to striving toward the broad strategic objectives, U.S.-Mexico law enforcement cooperation needs to focus on resolving specific obstacles:

- While we made measurable progress in 2001 in reducing the production and flow of illicit drugs through Mexico and into the U.S., cooperation needs to be institutionalized if we are to sustain these efforts. Continuation of programs to exchange information and experiences in specialized areas will contribute to further progress.
- The production and transshipment of methamphetamine and other synthetic drugs is a major concern to the U.S. and a growing problem in Mexico. Mexico should become more aggressive in chemical diversion control, particularly initiation and pursuit of chemical diversion investigations.
- Mexico's renewed emphasis on rooting out official corruption is a positive development, but these anticorruption initiatives need to be institutionalized and sustained. Sustained public support for and insistence upon these reforms is essential to long-term success.
- Vetted unit initiatives offer an opportunity to initiate and to advance investigations against major drug traffickers. Bilateral coordination, confidence building, and

information sharing will continue to benefit from a strengthened vetting process that fosters the twin goals of confidence and competence.

- Security for both Mexican and U.S. law enforcement personnel is of paramount importance. Close collaboration between the U.S. and Mexico, such as existed during the Agustin Vasquez Mendoza case, sends a strong signal to drug traffickers that threats against U.S. or Mexican agents will not be tolerated.
- Although new money laundering legislation was passed in 1996, Mexico has had only a handful of successful money laundering prosecutions and convictions. The establishment of a mechanism to obtain investigative information from Mexican financial institutions as well as closer collaboration between financial investigative units within the Mexican government could improve the prosecution of money laundering cases.
- Even though the GOM has increased its support to law enforcement institutions, better equipment, more and better-trained personnel, and improved salaries and benefits are needed.
- Continued improvement in cooperation on pre-seizure and post-seizure analysis will enhance investigations against major trafficking organizations. The recent addition of document exploitation capabilities and analytical training for Mexican law enforcement will be a key to success.
- The Mexican Supreme Court's decision to deny extradition in possible life sentence cases presents a serious obstacle towards bringing fugitives to justice. Likewise, abuse of the "amparo" (injunction process) continues to hinder both criminal prosecutions and extradition cases, fueling the perception of Mexico as a safe haven for fugitives.

# Mexico Statistics

(1993–2001)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Opium<sup>1</sup></b>									
Potential Harvest (ha)	4,400	1,900	3,600	5,500	4,000	5,100	5,050	5,795	3,960
USG Estimated Impact (ha)	7,400	7,600	7,900	9,500	8,000	7,900	8,450	6,620	7,820
Eradication (ha)	15,350	15,300	15,469	17,449	17,732	14,671	15,389	11,036	13,015
Cultivation (ha)	11,800	9,500	11,500	15,000	12,000	13,000	13,500	12,415	11,780
Potential Yield (mt)	71	25	43	60	46	54	53	60	49
<b>Cannabis</b>									
Potential Harvest (ha)	4,100	3,900	3,700	4,600	4,800	6,500	6,900	10,550	11,220
USG Estimated Impact (ha)	7,400	13,000	19,400	9,500	10,500	12,200	11,750	8,495	9,970
Eradication (ha)	33,300	33,000	33,583	23,928	23,576	22,961	21,573	14,227	16,645
Cultivation (ha)	11,500	16,900	23,100	14,100	15,300	18,700	18,650	19,045	21,190
Potential Yield (mt)	7,400	7,000	6,700	8,300	8,600	11,700	12,400	5,908	6,283
<b>Seizures</b>									
Opium (mt)	0.48	0.27	0.80	0.15	0.34	0.22	0.22	0.15	0.13
Heroin (mt)	0.24	0.268	0.258	0.120	0.115	0.363	0.203	0.297	0.062
Cocaine (mt)	29.3	18.3	33.5	22.6	34.9	23.6	22.2	22.1	46.2
Cannabis (mt)	2,007	1,619	1,459	1,062	1,038	1,015	780	528	495
Methamphetamine (mt)	0.396	0.555	0.358	0.096	0.039	0.172	0.496	0.265	—
<b>Arrests</b>									
Nationals			10,261	10,034	10,572	11,038	9,728	6,860	17,551
Foreigners			203	255	170	207	173	146	75
<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>
<b>Labs Destroyed</b>	18			7	8	19	19	9	5

<sup>1</sup> Opium poppy gum yield survey numbers changed in 2001 as a result of a scientific Mexico/U.S. binational survey, whose results will be published in 2002. The figures are preliminary and further work is being undertaken in 2002 to confirm these new yield figures. For comparison purposes, opium gum yield totals from 1997-2000 have been revised using the preliminary figures from the 2001 study.



# Nicaragua

## I. Summary

Although Nicaragua is not a major drug producing country, it is an important transit zone for narcotics trafficked from South America to the United States and Europe. The available evidence does not suggest that the illicit narcotics entering the United States from Nicaragua are in an amount sufficient to have a significant effect on the United States, but Nicaragua remains a country of concern to the United States. For this reason the U.S. government remains committed to helping Nicaragua in the country's fight against drug trafficking. Drug consumption in Nicaragua remains a problem, particularly along the Atlantic coast. The Nicaraguan government is making a determined effort to fight the narcotics trade. Nonetheless, the Nicaraguan National Police (NNP) and the Armed Forces will need support to continue to make gains against drug trafficking.

Nicaragua continues to work on important legal reforms that will enhance its ability to counter narcotics. In November 2001, Nicaragua made a major stride forward with the final approval of a six-part bilateral maritime counternarcotics agreement with the United States. This agreement will allow U.S. and Nicaraguan maritime and air forces to work together in joint counternarcotics operations and presents opportunities for expanded cooperation. The United States continued to provide assistance to the NNP's counternarcotics efforts during 2001. Working with the NNP Drug Unit, the DEA office in Managua set a record for the most drug seizures in Central America for 2001. During 2001, the DEA office in Managua achieved the all-time world record for cocaine seized at sea as well as the largest land seizure of cocaine in Central American history. Nicaragua's weak and under-regulated banking sector remains a potential target for money laundering. Nicaragua is a party to the 1988 UN Drug Convention.

## II. Status of Country

Colombian drug traffickers move illegal narcotics through Nicaragua by way of land and sea routes. These activities have intensified in the wake of recent advances in maritime interdiction by the Governments of Panama and Costa Rica. According to the DEA office in Managua, traffickers have been forced to move northward in Nicaragua in their search for refueling areas and way stations for fast boats. Nicaragua is in danger of becoming a target for money laundering due to a weak and largely unregulated banking sector. (For details, see Money Laundering chapter).

The NNP continues to be a capable law enforcement organization. During 2001, the DEA office in Managua and the NNP conducted joint investigations that resulted in the capture of over 24 tons of cocaine, setting DEA records for Central America and for seizures at sea. (Because some of these seizures did not take place in Nicaragua, they are not entirely reflected in the statistics of cocaine captured by the NNP during 2001 in Section V of this report.) Despite these achievements, resource constraints and an inefficient and corrupt legal system continue to impede fully effective police operations. Consumption of illegal drugs (especially crack cocaine) remains a serious problem, particularly along the Atlantic coast. Although the NNP are principally responsible for law enforcement, the army, which includes a naval unit, is increasingly playing an important support role in counternarcotics efforts.

## III. Country Action Against Drugs in 2001

**Policy Initiatives.** During 2001, the GON continued efforts to revamp the country's legal system. The National Assembly passed a new Criminal Procedures Code that permits oral arguments in court cases, whereas only written ones had been used previously. The legislature is now reforming the Penal Code to update and rationalize the system of punishments for given crimes. The National Assembly is also working on ways to strengthen the provisions against money laundering in the country's main drug law. A

proposed new Criminal Code is now working its way through the legislature. In December 2001, the National Assembly appointed a new Public Prosecutor.

**Accomplishments.** Nicaraguan officials and the general public have become increasingly aware of the dangers posed by drug trafficking in recent years. They have focused on policy and structural changes to address the problem. In a major step forward for counternarcotics cooperation, in November 2001 the GON formally approved a bilateral maritime counternarcotics agreement with the United States, one similar to those previously concluded in other Central American countries. This agreement will allow the United States and Nicaragua to carry out joint counternarcotics operations on the high seas and in the air.

**Law Enforcement Efforts.** Over the course of the year, the NNP arrested over 800 persons on drug-related charges, including nine foreigners. During 2001, Nicaraguan authorities seized 2,711 kilograms of cocaine and eight kilograms of heroin. In addition, the authorities captured 116,003 marijuana plants and 7,710 crack stones. These seizures represented significant increases over 2000, when authorities seized 960 kilograms of cocaine, two kilograms of heroin, 83,070 marijuana plants, and 5,203 crack stones. Despite these accomplishments, the police remain hobbled in their efforts to fight narcotics trafficking by a severe lack of resources. The NNP Narcotics Unit has only 116 officers, including administrative support, to cover the entire country.

**Corruption.** The NNP have undertaken several measures to combat and control corruption in their ranks. In the last two years, they have begun regularly rotating officers to prevent conflicts of interest from developing at the local level. However, the practice of rotation has not incorporated captains and lieutenants, a potential area of vulnerability. The NNP have issued numbered badges to their officers, a practice that makes it easier for the public to identify an abusive officer. Also, the NNP Narcotics Unit answers only to the top two ranking officials in the NNP, a practice that helps maintain the integrity of confidential information.

Corruption among police officers is difficult to overcome because they receive the lowest salaries of all police officers in Central America; an entry-level police officer makes less than \$80 a month. In 2002, plans to increase police salaries by 35 percent, if achieved (despite fiscal austerity requirements) could help address this problem. In addition, corrupt judges often let detained drug suspects go free after a short detention, a practice that puts traffickers back on the streets and that weakens police morale.

The GON began to develop a National Anti-Corruption Plan in 1998. The Committee on National Integrity, which designed the plan, was headed by then-Vice President (now President-elect) Enrique Bolanos. On December 20, 2001, the Committee issued a Basic Manual of Public Service that lays out norms of conduct of public officials and defines abuses of power and position. A new civil service law is also pending in the National Assembly. Furthermore, with funding provided by the Department of State's Bureau for International Narcotics and Law Enforcement Affairs and expertise from the U.S. Embassy in Guatemala, the NNP has developed an Anti-Corruption Unit (UAC) to investigate cases of abuse of government power. The unit is now working on a variety of investigations.

**Agreements and Treaties.** Nicaragua is a party to the 1961 UN Single Convention on Narcotic Drugs, 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, but the Nicaraguan constitution prohibits extradition of Nicaraguan nationals. Nicaragua is also a member of Caribbean Financial Action Task Force (CFATF). The United States and Nicaragua signed a bilateral counternarcotics maritime agreement in November 2001. Nicaragua has signed the UN Convention against Transnational Organized Crime. Nicaragua is a member of the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States (OAS). Nicaragua is a party to the Inter-American Convention Against Corruption and in 2001 signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention.

**Cultivation/Production.** With the exception of marijuana, illegal drugs are not cultivated in Nicaragua. The marijuana grown in Nicaragua is dedicated to local consumption. During 2001, the NNP continued manual marijuana eradication efforts.

**Drug Flow/Transit.** Nicaragua's location, the endemic poverty of a large proportion of the population, and the lack of resources available to law enforcement make the country an attractive transit zone for drug traffickers. The most vulnerable area of the country is the sparsely populated Atlantic coast. The many islands and tiny inlets of the Atlantic littoral provide ideal way stations and rest areas for drug smugglers moving between Colombia and points further north. Some Atlantic coast residents support the traffickers by refueling their vessels and by storing drugs. In some communities, drug smuggling has become the principal economic activity, creating concern that a militant "narco-culture" could emerge that could be difficult to counter if left unchecked. Drugs also move north along the Pan-American Highway and in "go-fast" boats that run along the Pacific coast.

**Domestic Programs (Demand Reduction).** Drug consumption in Nicaragua continues to be a problem, particularly crack cocaine use on the Atlantic coast. The Atlantic coast is the poorest region of Nicaragua and suffers from 60-70 percent unemployment. Drug traffickers often pay for cooperation from local citizens in kind, a practice that only multiplies the number of addicts in the local population. In addition, drug shippers threatened by interdiction in the Caribbean Sea will frequently toss their wares overboard. These packages wash ashore in impoverished communities where economically desperate residents often divide up the drugs among village members to sell. Both these trends reinforce local use.

The GON has responded to its growing domestic drug problem. The Ministries of Education and Health, the NNP, and the Nicaraguan Fund for Children and Family (FONIF) have all undertaken limited demand reduction campaigns. In February 2001, the USG established the D.A.R.E. Program in Nicaragua and approximately 40 NNP officers received training as D.A.R.E. instructors. By December 2001, over 3,200 Nicaraguan schoolchildren had been awarded certificates of participation in the D.A.R.E. Program. In the fall of 2001, the U.S. Embassy in Managua also sponsored a soccer tournament for over 500 ex-gang members in Managua dedicated to counternarcotics and counter-violence themes. The D.A.R.E. Program is scheduled to return to Managua in February 2002.

#### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** Nicaragua and the United States now enjoy a strong counternarcotics relationship. The police have made significant progress in recent years in professionalizing their force. Since the Nicaraguan Police established formal relations with the DEA in 1997, cooperation between the two agencies has been ongoing and effective. During 2000, the U.S. continued to provide significant counternarcotics and law enforcement assistance to the National Police, both through the DEA, State/INL, and the Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP). The USG provided over 30 seminars to the Nicaraguan National Police.

In response to the vast and long-term complications created by Hurricane Mitch, the USG provided Nicaragua with additional funding to fight corruption and alien smuggling and to build the country's capabilities to carry out the interdiction of drugs shipped by land. These efforts continue.

**The Road Ahead.** Nicaragua's leaders recognize the threat that the drug trade poses to Nicaraguan society and to Nicaraguan sovereignty. They and the police forces are committed to the counternarcotics effort. Nevertheless, Nicaragua faces significant challenges in countering the international drug trade, notably the lack of the necessary resources. They need to continue the internal reforms and professionalization of justice sector personnel. Nicaragua has increased its cooperation with neighboring states, via the Central American Permanent Commission against drugs (CCP) and the Inter-American Drug Abuse Control Commission (CICAD), which will help to reinforce national efforts.

The United States and other donors have undertaken programs to strengthen the technical capabilities of the Nicaraguan police and the accountability of the judicial system, which will also aid Nicaragua in its

efforts to create a viable and stable democratic system. Nicaragua and the U.S. are now working to conclude a bilateral maritime agreement, which would permit joint operations in maritime interdiction efforts off the coasts of Nicaragua. The U.S. is also supporting Nicaragua's efforts to tighten regulation over the country's financial system in an effort to counter money laundering.

## Panama

### I. Summary

The Government of Panama (GOP) has continued to demonstrate its willingness to cooperate with the U.S. Government (USG) and the international community in combating drug trafficking, money laundering, and other transnational crimes. In 2001, the GOP seized significant amounts of illicit drugs, particularly heroin and MDMA (“ecstasy”), even though drug traffickers varied their smuggling routes and methods to avoid detection. Panama continued to implement the anti-money laundering legislation and executive decrees passed in 2000 and to increase cooperation in regulating and interdicting precursor chemicals. Panama is a party to the 1988 UN Drug Convention.

Panama’s location as a country bordering Colombia and a land bridge to the rest of Central America, as well its advanced infrastructure and well-developed financial services sector, make the country a strategic transshipment point for illicit drugs smuggled from South America to the United States and other international markets. Panama is vulnerable to a wide range of transnational crimes, including drug trafficking, money laundering, illicit arms sales, stolen vehicle trafficking, and alien smuggling. Panama’s police and investigative resources are capable yet limited, and its judicial and penal systems are underdeveloped. Panama’s geography and infrastructure provide organized crime groups virtually limitless options to transport illicit narcotics. In 2001, Panama’s international banking center, the Colon Free Zone (CFZ), and its U.S. dollar-based economy continue to attract money launderers in spite of the Moscoso administration’s upgrading of its money laundering laws and regulations and efforts to enhance information sharing with other nations.

### II. Status of Country

Panama’s proximity to the world’s largest cocaine producer, its vast maritime industry, containerized seaports, the Pan-American Highway, international hub airport, numerous uncontrolled airfields, vast coastline, and limited control of its borders has continued to make Panama a major drug-transit country. Domestic drug abuse continued to be a problem for Panama in 2001 with the emergence of ecstasy as an increasingly abused recreational drug. Panama is not a significant producer of drugs or precursor chemicals, although coca and marijuana are cultivated in small amounts. Panama’s large and sophisticated banking and trading center, and its dollar-based economy make it an attractive site for money laundering, especially through the Colombian Black Market Peso Exchange (BMPE) mechanism. The Moscoso administration took steps to enhance Panama’s measures to combat money laundering in 2001 (see Money Laundering Section). Panama is a member of the Egmont Group (an alliance of 30 nations with centralized financial intelligence units) and the Caribbean Financial Action Task Force (CFATF).

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The National Commission for the Study and Prevention of Drug-related Crimes (Commission Nacional Para El Estudio Y la Prevencion de Los Delitos Relacionados con Droga, or CONAPRED), Panama’s national drug policy office, established the Chemical Control Commission (CCQ), an interagency precursor chemical control agency, in 2000. In 2001, with the assistance of the U.S. Embassy’s Narcotics Affairs Section (NAS), the CCQ moved into its new quarters, integrating representatives from the three principal GOP entities regulating chemical control: the Ministry of Health, the Judicial Technical Police (PTJ) (Panama’s equivalent to the U.S. FBI), and Panamanian Customs. CONAPRED also brought together a wide range of government and private sector experts to draft Panama’s 2002 to 2007 national drug strategy. With assistance from the USG, the Ministry of Government and Justice’s National Criminal Statistics Analysis Agency (CONADEC) significantly

upgraded its data input and analysis ability and established three new offices, including an office in oft-neglected Darien Province.

**Accomplishments.** Through CONAPRED and under the authority of the Attorney General, Panama continued to implement the National Drug Strategy 1996-2001, its national counternarcotics plan. This program coordinates GOP and NGO efforts and emphasizes prevention, treatment, rehabilitation, supply control, and interdiction. In 2001, CONAPRED worked closely with the NGO Cruz Blanca, the Ministry of Education, and the Embassy's NAS to conclude a major epidemiological study of factors that put youth at risk for drug abuse. In August 2001, Panama's Banking Association, with strong support from Panama's Banking Superintendency and Financial Analysis Unit (FAU), hosted the Fifth Hemispheric Congress on the Prevention of Money Laundering. Panama's Public Ministry hosted both the hemispheric Heads of National Law Enforcement Agencies (HONLEA) conference and the Central American International Drug Chiefs Conference in 2001.

**Law Enforcement Efforts.** DEA-monitored illicit drug cases and statistics through December 2001 show seizures of 4,118 kilograms of cocaine, 513.5 kilograms of marijuana, 514 kilograms of heroin, 22,169 tablets of ecstasy, and 217 arrests for international drug-related offenses, as well as 2.5 million in currency seizures. Trafficking groups have employed more sophisticated methods and a higher degree of operational security to elude detection in Panama. As a result, most of the large seizures in 2000 and 2001 resulted from intelligence-driven investigatory efforts, rather than random interdiction, and demonstrated both the increasing operational capabilities and the spirit of cooperation among Panama's law enforcement agencies.

Heroin and ecstasy seizures for 2001 are at the highest recorded levels. The increase in heroin seizures is largely a result of the demand for Colombian heroin, coupled with a highly effective drug interdiction program at Panama's international airports. Seizures of heroin, in multi-kilogram quantities, and heroin repackaging facilities underscore Panama's key role in the transfer of heroin from Colombia into the United States. The exponential leap in ecstasy seizures indicates that Panama is emerging as an important transit center for ecstasy.

The Public Ministry's Drug Prosecutor's Office (DPO) remains a respected entity for combating narcotics-related crimes and a principal coordinator of Panama's public forces' counternarcotics investigative resources. The DPO's cooperative efforts with U.S. law enforcement agencies are excellent and extensive. Panama's National Police (PNP) Directorate of Information and Intelligence (DIIP) and its Anti-Drug Sub-Directorate (DAD) are extremely effective drug investigative units. The PNP/DAD was responsible for the majority of the illicit drug seizures made in 2001. The PNP assumed an increasingly important role in organizing and executing operations on the national and regional level.

The PTJ's counternarcotics division's bilateral cooperation with the United States has continued to be excellent and expanded to include establishment of an elite vetted unit. In 2001, Panama's Tocumen International Airport drug interdiction unit, composed of representatives from the PNP, PTJ, and Panamanian Customs, accounted for record seizures of heroin, significant seizures of currency and cocaine, and arrests of international drug couriers.

The National Maritime Service (SMN) had some moderate success in interdicting illicit narcotics. The SMN worked with the National Air Service (SAN), the PNP, the PTJ, the DPO, and its U.S. counterparts. The presence of U.S. Coast Guard (USCG) training personnel assigned to live and work with the SMN has promoted an invaluable professional exchange that aided the SMN in a broad spectrum of law enforcement and shipboard-related skills.

The SAN continued to provide excellent support for counternarcotics operations despite limited air assets, continuing problems with maintenance and spare parts procurement, the strain of a heavy commitment to support the Darien Province border police, and internal management problems. The SAN's efforts contributed to the eradication of 35,000 marijuana plants in 2001. The SAN continued to respond rapidly to U.S. law enforcement requests to overfly and photograph suspect areas and to identify

suspect aircraft in flight or on the ground. The SAN provided crucial logistical support that enabled the USCG, assisted by the SMN and the PNP, to transfer detainees and drug evidence through Panama to U.S. jurisdiction. The SAN and the PNP also continued to cooperate in the surveillance of areas of potential coca and marijuana growth.

**Precursor Chemicals.** Panama is not a major producer or significant consumer of chemicals used in processing illegal drugs, but a large volume of chemicals transits the CFZ for other countries. In 2001, Panama further developed its regulatory/enforcement infrastructure to control the use and shipment of precursor chemicals with the assistance of the United States and the Inter-American Drug Abuse Control Commission (CICAD). The GOP also established an interagency precursor chemical control board that is responsible for the coordination of chemical control between four GOP entities and the private sector. In September 2001, under the direction of the Public Ministry's CONAPRED, the GOP inaugurated the new offices provided by the USG for the multi-agency CCQ. The unit is staffed by members of the PTJ, Panamanian Customs, and the Ministry of Health.

**Asset Forfeiture.** Panama's legal system authorizes asset forfeiture, including a system for identifying and forfeiting narcotics-related assets. Through seizure actions the PTJ, the PNP, and other GOP law enforcement agencies have acquired numerous vehicles. Panama has not specifically enacted legislation authorizing it to share seized narcotics assets with other governments, but the GOP has shared assets with other countries individually. Building on negotiations between the U.S. Department of Justice and the Office of Panama's Attorney General, the USG developed a draft asset-sharing agreement that was provided to the GOP in 2000. This agreement would permit asset sharing in the multi-million dollar Gonzalo Rodriguez Gacha case, should that case result in forfeiture to Panama, as well as other major cases. The United States continues to await a response from the GOP to our follow-up inquiries about the draft agreement.

**Money Laundering.** Money laundering cooperation with the Moscoso government has notably improved. The GOP has actively implemented its anti-money laundering laws, as strengthened in 2000, criminalizing the laundering of proceeds from a series of serious crimes, including illegal arms trafficking, trafficking in persons, kidnapping for profit, extortion, criminal fraud, corruption of public servants, and theft and sales of stolen cars. The GOP's Financial Analysis Unit (FAU) concluded an informal information-sharing arrangement with U.S. FINCEN, under which the two financial intelligence units (FIUs) have shared information through letters of exchange on a case-by-case basis. The FAU has signed or is in the process of negotiating memoranda of understanding (MOUs) with several other countries. For example, MOUs have been signed with Belgium, Colombia, and France. Negotiations of MOUs are pending with countries such as Mexico and Costa Rica.

Application of this strengthened legislation, coupled with the increase in resources to the FAU and the enhanced efforts toward international cooperation were instrumental in the Financial Action Task Force's (FATF) June 2001 decision to remove Panama from the list of countries that were not cooperating in the international fight against money laundering.

**Corruption.** As a matter of government policy and practice, Panama does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions. No senior official of the GOP engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Corruption, facilitated by weak and uneven enforcement, is the major impediment to law enforcement efforts. These enforcement factors inherently foster individual corruption and make it challenging to develop long-term criminal investigations against top-echelon drug and money laundering violators. On July 23, 2001, the GOP hoped to remedy the situation when it passed a new law that modifies Panama's judicial and penal codes by increasing penalties for corrupt practices and, in some cases, more than doubling previous penalties. President Moscoso signed a new Law backed by Transparency International at the end of January 2002 which provides free access to government records, similar to the USG's Freedom of

Information Act. The legislation also establishes the qualifications, as well as the chain of command, for an Anti-Corruption Czar.

Nevertheless, much remains to be done. The GOP has still not filled the Anti-Corruption Czar position, which falls under the Ministry of Economy and Finance and has been vacant for over a year. President Moscoso offered the position to several highly qualified candidates during the year, but all declined. Many believe that for the Anti-Corruption Czar to be truly effective, the position should be at the cabinet level and have the authority to investigate independently from the direction of a specific ministry. This would require re-structuring the current position.

**Agreements and Treaties.** Panama is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the 1961 UN Single Convention, and the 1971 UN Convention on Psychotropic Substances. A mutual legal assistance treaty (MLAT) and an extradition treaty are in force between the United States and Panama, although the Panamanian constitution does not permit the extradition of Panamanian nationals. In 1999, the USG concluded a customs mutual assistance agreement with the GOP.

In September 2001, Panama and the United States exchanged instruments of ratification for the bilateral stolen vehicles treaty signed in June 2000. Comprehensive implementing legislation must still be introduced into the Legislative Assembly. 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. In October 2001, a supplementary arrangement to the 1991 agreement, a bilateral six-part maritime agreement between the USG and GOP was initialed. The agreement was signed and entered into force on February 5, 2002. This supplementary agreement will solidify the excellent level of bilateral maritime and air interdiction cooperation.

The GOP participates in CICAD, CFATF, the Black Market Peso Exchange Working Group, and the Basle Committee's Offshore Group of Bank Supervisors. In 1997 Panama joined the Egmont Group, becoming the group's first Latin American participant. As noted above, the GOP's Financial Analysis Unit (FAU) concluded an information-sharing arrangement with U.S. FINCEN, and the FAU has signed or is in the process of negotiating memoranda of understanding with several other countries.

Panama has bilateral agreements on drug trafficking with the United Kingdom, Colombia, Mexico, Cuba, and Peru. In addition to the United States Panama has MLATs with the UK, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Panama signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants in December 2000. Panama signed the Protocol against the Illicit Manufacturing of and Trafficking in Firearms on October 5, 2001. The GOP is a party to the Inter-American Convention Against Corruption and in 2001 signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention.

**Cultivation/Production.** Aerial reconnaissance by the SAN in 2000 and 2001 indicates the presence of suspected small coca fields in one of the areas where coca plants previously were eradicated. Efforts are underway to confirm the existence of reported coca cultivation and cocaine laboratories in Darien Province. There are limited amounts of marijuana cultivated to supply the local market and a small amount of marijuana grown in Perlas Islands is exported. Both the SAN and PNP investigate areas of potential cultivation and have eradicated marijuana when it is found. In 2001, a combined SMN, SAN, and PNP element eradicated 35,000 marijuana plants on Isla del Rey and Isla Pedro Gonzalez.

**Drug Flow/Transit.** Panama is a key center for the transit and distribution of South American cocaine and increasingly, precursor chemicals, heroin, and ecstasy. Fishing vessels, cargo ships, small aircraft, and go-fast boats transit Panamanian waters and airspace, continuing on to other Central American countries or dropping off their cargo in Panama. Shipments dropped off in Panama are repackaged and moved northward on the Pan-American Highway or shipped in sea freight containers. Small, low-flying planes were reported entering Panamanian airspace and dropping drug loads in remote and sparsely populated



areas. Couriers transiting Panama by commercial air flights continued to move increasing amounts of cocaine and heroin to the United States and Europe.

**Domestic Programs (Demand Reduction).** In 2001, Panama continued to implement CONAPRED's counternarcotics plan and to design its next five-year counternarcotics strategy. The Ministry of Education and CONAPRED, supported by U.S. funding, promoted demand reduction through training for teachers, information programs, counternarcotics abuse training for youth, and school curriculum programs. CONAPRED and the Embassy's NAS also supported the Ministry of Education's National Drug Information Center (CENAID) in 2001. These efforts were integrated with the Ministry of Health's treatment and rehabilitation programs and those of the Catholic Church, local NGOs, and the University of Panama. Hogares Crea (a local NGO) expanded the long-term rural rehabilitation center established in 2000.

Working with the Embassy's NAS, the Ministry of Education, and the NGO Cruz Blanca, CONAPRED administered a comprehensive epidemiological survey to 5,000 children in Panama City, Colon, David, and Bocas del Toro to identify factors that put youth at risk for drug abuse and links between those factors and violence, family break-up, and other social problems. The preliminary survey results demonstrate that risk factors can be identified and that children with significant risk factors are likely also to have serious drug abuse and other social problems. The GOP will continue to analyze the results in detail in 2002 to determine how the data can be used to improve drug abuse prevention education and drug abuse rehabilitation programs.

#### IV. U.S. Policy Initiatives and Programs

The U.S. provided crucial equipment, training, and information to enhance the performance of GOP counternarcotics and law enforcement institutions in 2001. These U.S.-supported programs are aimed at: improving Panama's abilities to investigate and prosecute illegal drug trafficking and other transnational crimes; strengthening Panama's judicial system; assisting Panama to implement its drug abuse prevention program; encouraging the enactment of more effective laws and regulations covering counternarcotics, money laundering, alien smuggling, stolen vehicle trafficking, and corruption; improving Panama's border security; and ensuring strict enforcement of existing Panamanian laws.

The USG, through USAID, is assisting the GOP to develop an Administration of Justice (AOJ) program to strengthen law enforcement and judicial institutions and procedures. This program addresses reduction of pre-trial detention, and the use of alternative dispute resolution for commercial disputes. The AOJ program also works to promote civil society involvement in the reform process.

During 2001, the USCG worked closely with the SMN, enhancing its effectiveness as a maritime interdiction force. The SMN received its fourth and fifth (final) 82-foot patrol boats, which the United States provided under a 2000 Memorandum of Understanding (MOU). That MOU also provided for the transfer of vans for Panamanian Customs. In 2001, the USCG established and completed four three-week 82-foot patrol boat courses, two of which had international students from Colombia and Costa Rica. The United States traditionally has had an excellent relationship with Panamanian Customs, and the United States has provided Panamanian Customs with training, operational tools, and a canine program that has become a linchpin of the Tocumen International Airport drug interdiction law enforcement team. Transfer of the USCG 180-foot buoy tender "Sweetgum" to the SMN will take place February 15, 2002.

The Office of Defense Cooperation received \$590,000 in Foreign Military Financing in 1999, which is being used to help the SMN establish an Atlantic base, procure much-needed repair parts for boats transferred by the USG, and provide training. The United States, through the Embassy's NAS, continued to procure repair parts for the patrol boats transferred by the USG and to fund additional training.

Other USG projects in 2001 included: establishing a rental motorpool in the PTJ's counternarcotics units in Panama City and Colon to increase their mobility and interdiction capacity; improving CONADEC's analytical ability and expanding CONADEC's provincial reporting program; providing training and

equipment to deter money laundering, alien smuggling, and vehicle theft; and upgrading the analytical capacity of the FAU. The USG continued to support the Ministry of Education's teacher training for demand reduction programs, development of Panama's Joint Intelligence Coordination Center, and joint counternarcotics operations among Panamanian authorities and the DEA, Customs, INS, and the USCG. The four narcotics detection dogs donated to the Customs unit at Tocumen International Airport are housed in a new kennel; the canine program has already resulted in an increase in narcotics seizures.

U.S. law enforcement agencies working from the U.S. Embassy in Panama City, the Embassy's NAS, and the UK's Customs Service have developed a port security project proposal to involve the Maritime Chamber of Commerce, the GOP's law enforcement agencies, and the GOP's Maritime Authority with Panama's private sector ports in a multi-stage program. The project proposal was enthusiastically received and a seven-person delegation from Panama attended a regional training program in Ecuador to evaluate successful methods developed elsewhere. Drawing on these experiences, the participants will work together with U.S. and UK officials during 2002 to develop a series of agreements to launch the project in Panama's two leading ports.

**Bilateral Cooperation.** The Moscoso administration continued its close cooperation by sustaining joint counternarcotics efforts with the DEA and by strengthening national law enforcement institutions. In 2001, the USG and GOP concluded a comprehensive, six-part bilateral maritime agreement with significant additions to permit the transfer of seized drugs and prisoners to the United States through Panamanian territory. The agreement was signed and entered into force on February 5, 2002.

GOP actions over the past year have established significant precedents. The transfer of prisoners and contraband drug evidence through Panama, described below, has provided invaluable support and cost savings to the USG. . Further advancing bilateral cooperation, the GOP and USG concluded an arrangement to permit the temporary deployment of uniformed and civilian members of the U.S. armed forces to Panama for security training, assistance, and operations. This will permit the continuation in 2002 of joint operations (Operaciones Conjuntos), which were canceled in 2000/2001 until the temporary deployment arrangement was concluded.

The SMN provided four crewmembers in March 2001 for the Caribbean Support Tender (CST), a USCG cutter with a multinational crew that provides training and assistance in ship maintenance and repairs to Caribbean and Central American coast guards. Heightening the significance of this CST training, the SMN members will then be assigned to the USCG cutter "Sweetgum," when it is transferred to the SMN in 2002. An additional four new SMN crew members will report to the CST in January 2002. From August 6-12, 2001, the CST visited Panama and provided training and maintenance support to the SMN. The CST focused all of its efforts on the five USG-donated SMN 82-foot "Point" class patrol boats. Projects completed include the installation of a loud hailer system, a full assessment of the on-board electronics, and inspection and servicing of all damage control and fire-fighting equipment. Ship-board emergency drills also were conducted and participants were taught tune-up procedures for the ship's service generators and improved maintenance techniques.

The GOP has remained one of the United States' principal partners in counternarcotics missions. Under the authority of the Attorney General and Ministry of Government and Justice, there have been seven instances in which drugs and prisoners seized on the high seas were transferred through Panama's territory for prosecution in the United States. The GOP has been extremely cooperative and forward leaning, with the transfer of both drugs and prisoners to the United States through their territory. The GOP has cooperated with U.S. requests to board and search Panamanian-flagged vessels suspected of drug smuggling in international waters. In 2001, the PTJ, Customs, the National Directorate of Immigration, and the PNP, with support from the INS, U.S. Customs, and the DEA, executed three major joint interdiction operations against alien smuggling and drug trafficking along the Costa Rican border.

The GOP continued to investigate important high-level drug traffickers and money launderers. Some examples of major cases as of December 2001 include:

- Cesar Ramirez-Lopez, 424 kilograms of cocaine, 10 arrests;
- Mario Rojas-Bedolla, 222 kilograms of cocaine, 17,200 MDMA pills, 8 arrests;
- Juan Garcia-Gritan, 10 kilograms heroin, 5 arrests;
- Tomas Ceballo-De Cruz, 800 kilograms cocaine, 3 arrests;
- Jaime Newbold-Suero, 760 kilograms cocaine, 12 arrests.
- Jorge Ricardo Manilla, 202 kilograms cocaine, seizure of one Sabre jet Aircraft, dismantling of a general aviation organization smuggling cocaine between Panama and Mexico

In April, the 2001 Annual IDEC conference elected PNP Director General Carlos Bares as the Regional IDEC President for Mexico and Central America. In 2001, the Central American countries jointly participated in simultaneous counternarcotics operations under the IDEC umbrella. Operations in 2001 consisted of commercial international airport interdiction, Pan-American Highway interdiction, maritime operations on the Atlantic and Pacific coasts, and a targeted approach to heroin trafficking.

**The Road Ahead.** The GOP continues to demonstrate its commitment to build strong law enforcement institutions, fight money laundering, and deter the flow of narcotics northward. The United States and Panama will continue to cooperate in these areas and to strengthen joint counternarcotics efforts. The maritime agreement and an arrangement to establish the framework for the travel of uniformed and civilian members of the U.S. Armed Forces to Panama for security training, assistance, and operations will enable the USG and the GOP to expand their law enforcement cooperation significantly. The development of a port security project will enable Panama to take the lead in controlling its huge container traffic in order to detect and deter illicit drug and precursor chemical smuggling through Panama's ports.

Panama's law enforcement efforts would be enhanced through additional coordination between its law enforcement agencies and with U.S. counterparts. The United States will continue to work with the GOP to help strengthen Panama's law enforcement institutional capacity, particularly in training, interdiction, investigation, and prosecution. The United States will provide assistance to Panama to support criminal justice reform, as well as anticrime and anticorruption efforts. U.S. assistance will complement Panama's counternarcotics and anticrime efforts, including assistance in the areas of detecting and deterring alien smuggling and stolen vehicle trafficking. The U.S. will continue to assist the GOP in its efforts to increase its own ability to investigate and prosecute successfully money laundering cases in Panama through training and commodity assistance to the FAU. The United States will continue to work with the Ministries of Health and Education and NGOs to expand Panama's demand reduction program. Because of Panama's budgetary limits, we believe the GOP should develop new sources of funds to combat drug trafficking and abuse, such as those available through effective money laundering prosecutions, asset forfeiture, and user/license fees where appropriate. We will work with the GOP to explore how such possible funding sources can be exploited fully.



# THE CARIBBEAN



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# The Bahamas

## I. Summary

The Bahamas is a major transit country for cocaine and marijuana bound to the United States from South America and the Caribbean. The Government of the Commonwealth of The Bahamas (GCOB) cooperates with the U.S. Government (USG) to interdict the flow of drugs through Bahamian territory, reduce the domestic demand for drugs within the Bahamian population, combat the exploitation of the Bahamian offshore financial sector by money launderers and other financial criminals, and enhance the ability of the Bahamian judicial system to prosecute and convict drug traffickers and money launderers.

During 2001, The Bahamas continued to participate actively in Operation Bahamas and Turks and Caicos (OPBAT), a three-nation interdiction effort against drug-smuggling boats and aircraft that was formed in 1982. Detected drug shipments decreased by nearly a third in 2001. A Bahamian magistrate ordered the extradition to the United States of the three top ringleaders of a major drug organization; however, in February 2002, a Bahamian Supreme Court justice overturned the magistrate's order. Total GCOB cocaine seizures in 2001 were about two-and-a-half percent lower than in 2000. Marijuana seizures were down almost 16 percent.

In 2001, the GCOB acted to define a greater maritime drug interdiction role for the Royal Bahamas Defence Force (RBDF), began to implement the recommendations of an OAS/CICAD assessment of The Bahamas' precursor chemical control systems, and made progress on completion of The Bahamas' National Anti-Drug Plan (NADP). 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 is a country of approximately 300,000 inhabitants and some 700 islands scattered over an area the size of California and located on the sea and air routes between Colombia and the United States. Its location makes the Bahamas a continuing target for drug transshipments. The GCOB assigns a high priority to combating drug trafficking, and is working, with the assistance of OAS/CICAD, on the NADP. Although an increasing number of small plots of marijuana plants have been discovered on Grand Bahama, Abaco, Eleuthera, Andros, and Cat Island, this cultivation is mainly for local consumption. The Bahamas is not a significant drug producer, nor is it known to be a producer or transit point for precursor chemicals.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The GCOB organized inter-departmental task forces to work on developing the various sections of its national counternarcotics plan; in December, GCOB officials participated in an OAS/CICAD workshop for the design and preparation of a national counternarcotics plan. (The GCOB expects to complete the plan in early 2002.) In December, the GCOB also announced that it is drafting, with the assistance of the UNDCP, precursor chemical control legislation as required by the 1988 UN Drug Convention. That legislation is now under review before it is presented to Parliament. The GCOB named senior Ministry of National Security official Phillip Turner as National Coordinator for Drug Matters and as advisor on CICAD's Mutual Evaluation Mechanism (MEM). The GCOB also named Commander Godfrey Rolle of the Ministry of Foreign Affairs as its new representative to CICAD, and Acting Police Commissioner Paul Farquharson as permanent Police Commissioner, the top position in the Royal Bahamas Police Force (RBPF). The GCOB also assumed complete responsibility for funding and procurement of a GCOB/USG-planned court case management software system (the Bahamas

Integrated Justice Information System or BIJIS) that will make the Bahamas' legal system virtually "paperless."

**Accomplishments.** The GCOB made significant progress on development of the NADP and expects to complete the document early in 2002. GCOB agencies cooperated closely with U.S. and foreign law enforcement agencies on drug investigations in 2001, dismantling the Samuel Knowles drug trafficking organization. The GCOB arrested and began prosecution of the head of the Dwight Major drug trafficking organization. GCOB agencies also cooperated with USG agencies in maritime interdiction operations that resulted in significant seizures of drugs and smuggling vessels.

**Law Enforcement Efforts.** The RBPF continued to participate actively in OPBAT, a multi-agency, international operation whose mission is to stop the flow of cocaine and marijuana transiting through The Bahamas to the United States. U.S. Coast Guard and U.S. Army helicopters based on the Bahamian islands of Andros (formerly on New Providence), Great Exuma, and Great Inagua intercept maritime drug smugglers and seize airdrops of drugs into Bahamian territory. Officers of the RBPF's Drug Enforcement Unit (DEU) and the Royal Turks and Caicos Islands Police Force fly on all OPBAT missions and are responsible for making arrests and seizures. A DEA special agent is also on board each flight to provide advice and coordination.

The DEU, a special force within the RBPF composed of 81 officers, works closely with the DEA on drug investigations. During 2001, the GCOB arrested 1,529 persons on drug charges and seized 2.67 metric tons of cocaine and 3.2 metric tons of marijuana.

In February, a counternarcotics operation dismantled a major Bahamian drug trafficking organization, headed by Samuel Knowles, Jr., estimated to have moved at least one metric ton of cocaine per month into North America. Law enforcement agencies from The Bahamas, the United States, Canada, and Jamaica cooperated in this 18-month long investigation, which resulted in the indictment of ten members of the ring in U.S. federal court in south Florida as well as the seizure of over 3,000 pounds of cocaine, nearly 900 pounds of marijuana, and the seizure or freezing of approximately U.S. \$10 million in cash and assets. Knowles, serving a minor sentence for possession of marijuana with intent to supply at the time, remained in prison pending the resolution of extradition proceedings. In February 2002, the Bahamian Supreme Court effectively overturned a lower court's order for the extradition to the United States of Knowles and his two top associates, and also ordered their release on bond. The GCOB expects to appeal this order. The two associates have been released, but Knowles is still in custody under a separate U.S. provisional arrest request.

In March, the DEU arrested another Bahamian drug lord, Dwight Major, on charges of conspiracy to sell some 1.2 metric tons of cocaine. His trial, begun in November, was adjourned until February 2002. Denied bail, Major remains in prison during the adjournment.

In 2001, the GCOB acted to enable the RBDF to take a greater role in interdicting maritime drug smuggling. The GCOB provided the RBDF with two forfeited "go-fast" drug smuggling vessels, which the RBDF equipped as fast response interceptor boats. In December, the RBDF deployed one of these boats to its base (built by U.S. Southern Command) on Great Inagua, a strategic location for intercepting go-fast boats arriving from the Windward Passage. To help integrate the RBDF into OPBAT's pursuits of drug smugglers, the RBDF also has furnished the Great Iguana base and its fast response boat with communications equipment compatible with that used by OPBAT. The RBDF has three marines assigned to the Caribbean Support Tender (the U.S. Coast Guard cutter "Gentian").

**Corruption.** As a matter of government policy, The Bahamas 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 GCOB is a party to the Inter-American Convention against Corruption and in 2001 signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention. The USG has no knowledge that any senior official of the GCOB engages in, encourages, or facilitates the illicit production or distribution of such illicit drugs or



controlled substances, or the laundering of proceeds from illegal drug transactions. In 2001, the RBPF stepped up its campaign to weed out corrupt members of the force. In February, six RBPF officers were suspended after their arrest on drug conspiracy charges. In addition, an RBPF constable was arrested and charged with smuggling 74 kilograms of marijuana within The Bahamas.

**Asset Forfeiture.** In November, the GCOB obtained an ex-parte restraining order against nearly \$973,000 in bank accounts held by Samuel Knowles, Jr. The GCOB will seek to forfeit this money under the Proceeds of Crime Act 2000.

**Agreements and Treaties.** The Bahamas is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The United States and Bahamas have a collection of arrangements and agreements regarding maritime law enforcement. In 2001, U.S. representatives held informal talks with the GCOB regarding the potential for a comprehensive maritime law enforcement agreement, which would consolidate the existing arrangements into a single, cohesive framework. The Bahamas also is a member of the Inter-American Drug Abuse Control Commission (CICAD). The Bahamas signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants on April 9, 2001.

The GCOB works with the United States to accomplish the five objectives of a continuing U.S.-Bahamas counternarcotics and law enforcement project designed to enhance the capability of the GCOB to suppress criminal activity. These objectives are increased efficiency of the RBPF and RBDF; money laundering prevention and control; support for OPBAT counternarcotics operations; enhancement of the Bahamian judicial system; and local drug demand reduction.

The U.S.-Bahamas Mutual Legal Assistance Treaty (MLAT) facilitates the bilateral exchange of information and evidence for use in criminal proceedings. United States requests under the MLAT seek and secure financial information and evidence for use in USG criminal investigations and prosecutions. A separate unit within the Attorney General's Office created to process international requests for assistance, including MLAT requests, has cleared the backlog of unexecuted MLAT requests from the United States and continues to facilitate the exchange of requests under the MLAT. The Bahamas also has MLATs with the UK and Canada.

Although extraditions are sometimes slowed by procedural delays in the Bahamian courts, the GCOB has been receptive to U.S. extradition requests based on the 1994 U.S.-Bahamas extradition treaty, an agreement that permits the extradition of Bahamian nationals to the United States. In October, a Bahamian magistrate granted a U.S. request for the extradition of Samuel Knowles, Jr. and two of his top associates; however, in February 2002, a Supreme Court justice overturned the magistrate's order and ordered the release of the three men on bail. In 2001, an appellate court confirmed a magistrate's order for the extradition to the United States of a Bahamian who had jumped bail in 1985 prior to his sentencing in the United States for drug trafficking.

In 1985, the USG and the GCOB informally established a shiprider and overflight program for joint operations. This program was formalized as the "Cooperative Shiprider and Overflight Drug Interdiction Programme" by an exchange of diplomatic notes in 1986 and was extended by another such exchange in 1996. The agreement permits The Bahamas to embark RBDF or RBPF officers as shipriders on USG vessels operating in Bahamian waters. A Bahamian shiprider may grant a USG vessel authority to board and search any suspected drug-smuggling vessels in Bahamian waters (as well as Bahamian vessels on the high seas) and to assist the shiprider with arrests, drug seizures, and vessel seizures. The agreement also authorizes U.S. law enforcement aircraft to overfly Bahamian territory.

**Drug Flow/Transit.** USG estimates indicate that some 12 percent of the cocaine detected heading to the United States from South America flows through the Jamaica-Cuba-Bahamas corridor. Most of that flow arrives in The Bahamas by go-fast boat from Jamaica. There was an increase in 2001 in the number of

airdrops by aircraft originating in Jamaica and Colombia to waiting Bahamian go-fast boats off the Cuban coast, but the number of detected airdrops remained small compared to the number of detected drug smuggling operations involving go-fast vessels.

The DEA and OPBAT estimate that there are roughly a dozen major Bahamian drug trafficking organizations. They offer their services, often with “money-back guarantees,” to Jamaican drug cartels to transport their drugs to the United States. The Bahamian go-fast boats usually head north from Jamaica and travel through the Windward Passage, between Haiti and Cuba, into Bahamian waters. Later these go-fast boats wait for an opportune time to dash from Bimini and Grand Bahama across to the east coast of south Florida to deliver their illicit cargoes. The number of shipments of drugs by go-fast boat through the Bahamas detected in 2001 declined by 32 percent from 2000 (100 detected events versus 146). The decrease in detections could be attributed, in part, to the withdrawal of USG detection and monitoring aircraft from The Bahamas for homeland defense in response to the September 11 terrorist attack on the United States. OPBAT-related seizures by the RBPF (a subset of total GCOB cocaine seizures) amounted to 2,415 kilograms in 2001 (down by 47 percent from 2000).

Small amounts of drugs are smuggled into The Bahamas on Haitian sloops. Drugs are sometimes found concealed on inter-island Bahamian mail boats and on cruise ships returning from the Caribbean. Drug couriers arriving from Jamaica frequently attempt to smuggle small amounts of cocaine concealed on or inside their bodies or in their luggage through the Nassau International Airport (NIA). Occasionally American tourists returning to the United States and foreigners on their way to the United States are detected with small amounts of drugs (cocaine, marijuana, and amphetamines) at the NIA and the Grand Bahama International Airport (GBIA) in Freeport, either by Bahamian authorities or by U.S. Customs agents at the pre-clearance facilities at those two airports. The Bahamas is a transit point for MDMA (ecstasy) tablets destined for North America and brought into The Bahamas by Dutch nationals.

**Domestic Programs (Demand Reduction).** The GCOB makes modest monetary and in-kind contributions to demand reduction programs, especially in education and prevention. It sponsors the National Drug Council, which coordinates the demand reduction programs of the various governmental entities, such as the Health Ministry’s Sandilands Rehabilitation Centre, and of NGOs such as the Drug Action Service and the Bahamas Association for Social Health.

## IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** The goals of U.S. assistance to The Bahamas are to dismantle trafficking organizations, stem the flow of drugs through The Bahamas to the United States, 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.** Under a letter of agreement signed in September 2001, the USG increased its support to the GCOB for the U.S.-Bahamas counternarcotics and law enforcement project by \$957,600. That support has totaled \$11,360,400 since the inception of the project in 1991.

During 2001, the Bahamas Country Program of the Department of State’s Bureau for International Narcotics and Law Enforcement Affairs (INL), administered by the U.S. Embassy’s Narcotics Affairs Section (NAS), funded training, equipment, and technical assistance for a number of Bahamian law enforcement units and drug demand reduction organizations, as well as utilities, repairs, and maintenance for the three OPBAT helicopter bases in The Bahamas. INL also funds the DEU drug detector dog program that is active at NIA and GBIA.

In February, the NAS turned over to the GCOB a high-performance purpose-built fast response interceptor boat to be used in conjunction with OPBAT helicopters on drug interdiction missions. This boat was immediately deployed by the RBPF and participated in a number of significant seizures of drugs and “go-fast” drug-smuggling vessels. In October, the NAS contracted for two more fast response interceptor boats for donation to the GCOB in February and May 2002. In September, OPBAT

helicopter operations formerly based at Oakes Field in Nassau were temporarily transferred for security reasons to the U.S. Navy's Atlantic Underwater Testing and Evaluation Center on Andros Island (AUTEK). The U.S. is funding the meals and lodging for the two DEU Strike Force officers on temporary duty with OPBAT at AUTEK.

In October, USG officials began informal talks with the GCOB to explore the possibility of negotiating a Comprehensive Maritime Agreement to replace a series of separate bilateral agreements on the interdiction of drugs and illegal migrants.

In September, INL funded a one-week U.S. Department of Justice/OPDAT asset forfeiture seminar in Nassau for Bahamian prosecutors and police officers. The U.S. Southern Command sponsors yearly counternarcotics education programs in The Bahamas through the Embassy's Navy Liaison Office.

**The Road Ahead.** The Bahamas' proximity to the United States and the sheer extent of its area guarantee it will be a target for drug transshipment and other criminal activity for the foreseeable future. The Bahamas is expected to continue its strong commitment to bilateral counternarcotics efforts, but because of its relatively small budgetary resources and growing drug transshipment problem, it will continue to depend on upon significant U.S. assistance to fight international narcotics trafficking and crime. In 2002, the United States will present a formal proposal for a Comprehensive Maritime Agreement to the GCOB. To strengthen the country's counternarcotics institutions, the United States plans to increase NAS funding for demand reduction; to donate additional go-fast interceptor boats to the GCOB; to continue cooperation and support for the DEU in dismantling drug trafficking organizations; to continue its participation in OPBAT; and to assist the RBDF in integrating its counternarcotics mission with OPBAT. The United States will have to increase the flexibility of its responses to the changing patterns and techniques of the drug traffickers and employ innovative and advanced technologies in order to ensure that OPBAT's goal of stemming the flow of drugs through The Bahamas into the United States is realized.

# *The Bahamas Statistics*

## *(1993–2001)*

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Seizures<sup>1</sup></b>									
Cocaine (mt)	2.67	2.74	1.86	4.39	2.58	0.12	0.39	0.49	1.80
Marijuana (harvested) (mt)	3.2	3.80	3.60	2.30	3.76	2.61	3.53	1.42	0.65
Amphetamines (kg)	63.8	63.4	—	—	—	—	—	—	—
<b>Arrests</b>	1,529	1,811	1,969	1,650	1,894	1,576	1,565	1,025	1,023

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<sup>1</sup> Through November, 2001.

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# Cuba

## I. Summary

Coordination between the Government of Cuba (GOC) and the United States on international drug trafficking issues has increased since September 2000, with the addition of a Coast Guard Drug Interdiction Specialist (DIS) to the U.S. Interests Section in Havana, Cuba. There remains, however, less transparency than desired on the extent of trafficking through the country and the level of domestic drug consumption. Although Cuba has not been designated as a major illicit drug producing or major drug-transit country, it remains a country of concern to the United States.

Cuba's location and geography present an inviting environment to both air and maritime smugglers. The island presents mariners with over 3,500 nautical miles of coastline and more than 4,000 islets and cays, many of which are sparsely populated and vulnerable to illicit activity. In the past two years, the GOC has increased its attention to non-commercial boats and small aircraft, with a resulting increase in seizures and foiled smuggling attempts. GOC officials claim that the government has adopted a policy of transparency with governments with which it cooperates on counternarcotics efforts. The challenge may be growing as increasing tourism, especially with Europe, presents the daunting prospect of increasing drug smuggling through Cuba to Europe. Cuba is a party to the 1988 UN Drug Convention.

## II. Status of Country

The island does not appear to be a significant producer of drugs or precursor chemicals, although unofficial reports indicate that small amounts of marijuana may be cultivated in the eastern mountains. Either Cuba's attractiveness as a transit point is increasing, or interdiction efforts are improving, as Cuban officials have pointed to the growing quantity of drugs seized over the past few years. The GOC still claims it lacks the resources to patrol adequately its territorial waters, although upgrades to patrol boats and equipment have been made over the past few years.

The lead law enforcement agency on drugs in Cuba is the Ministry of the Interior's National Anti-Drug Directorate. The National Drug Commission (formed in 1989) is an interagency coordinating body headed by the Minister of Justice. The Ministries of the Interior, Foreign Relations, Public Health, Education, and Culture are also represented on the commission, along with the Customs and Border Guard Services and the National Sports Institute.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** According to GOC officials, training of counternarcotics personnel is progressing. Over the past few years more than 22,000 individuals in the Ministry of the Interior (MININT) and in the Customs Service have received training in how to counter drug trafficking. In addition, more than 100 MININT specialists have been certified in six international counternarcotics courses held in Cuba and abroad, according to the GOC. In November, the GOC hosted a regional conference on counternarcotics issues, which focused on strategies to prevent drug abuse, drug trafficking, and money laundering. Some of the conference focused on a new policy to increase societal control by assigning a "social worker" to each Cuban family, thus helping to prevent drug abuse and its causes. The GOC has launched a national plan to educate Cubans on the dangers of drugs.

**Law Enforcement Efforts.** The success of the ACHE II counternarcotics offensive from July to October 2000 has led the GOC to convert it into a permanent operation. (This effort is aimed at deterring drug smugglers from using waters off Cuba's eastern coast en route to The Bahamas and the United States.) The U.S. Coast Guard and Cuba's border guard (TGF—Tropas Guardas Fronteras) have

continued to exchange information leading to the apprehension of several boats and crews involved in drug trafficking.

**Drug Seizures/Arrests.** The GOC's sustained offensive against "go-fast" boats and private aircraft drops of narcotics continued to net results, with two interceptions in June and July of a total of 75 bales of marijuana. Coordination between the U.S. Coast Guard and the TGF led to the prevention of additional trafficking operations and the destruction of several tons of marijuana and cocaine seized from narcotics traffickers.

The GOC's National Anti-Drug Directorate reported 1.278 metric tons of cocaine and 6 metric tons of marijuana seized in 2001. The GOC reported that 3.144 metric tons of cocaine and 8.8 metric tons of marijuana were seized in 2000.

The GOC reported 29 drug arrests of foreign nationals in 2001 compared with 32 in 2000.

**Corruption.** The USG has neither evidence nor strong suspicion of current narcotics-related corruption among GOC officials. The state-controlled media did not mention GOC complicity in narcotrafficking or narcotics-related corruption in 2001.

**Agreements and Treaties.** Cuba is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The GOC maintains bilateral counternarcotics agreements with 29 countries and less formal working arrangements with 12 others. In addition, Cuba cooperates with 12 international counternarcotics organizations. The United States and Cuba cooperate on counternarcotics matters on a case-by-case basis. Cuba has signed the UN Convention against Transnational Organized Crime. The GOC also is an active participant in negotiations to reach a Caribbean regional maritime counternarcotics agreement.

**Cultivation/Production.** There is no evidence that Cuba is a significant drug-producing country. Officials of the GOC say that small quantities of marijuana are grown around Havana and eastern Cuba for local use only. The GOC offered no information regarding crop size estimates or crop yields and mentioned only that 3,058 marijuana plants and 17,809 seeds were seized in 2001. These figures are lower than those for calendar year 2000 in which 11,702 marijuana plants and 34,445 seeds were seized.

**Drug Flow/Transit.** The GOC publishes figures on the quantity of drug seizures, but there are no authoritative reports on the nature and extent of trafficking from and through Cuba. Based on seizure information, it appears that the majority of detected trafficking took place through Cuba's territorial waters and airspace, with smaller amounts transiting Cuba's international airports. In cases at sea, narcotics were transported through Cuban waters by ship, or dropped from an aircraft to a waiting "go-fast" boat. These drugs appeared to be heading for the Bahamas, with the United States as the likely final destination.

**Chemical Control.** Based on available information, Cuba is not a source of precursor chemicals, nor have there been any incidents involving precursor chemicals reported in 2001.

**Domestic Programs (Demand Reduction).** The GOC hints at a growing problem of drug consumption, but ties it to an increase in foreign tourism and increased amounts of narcotics washing up onto Cuban shores that are not reported and subsequently consumed or sold for hard currency. GOC officials report that they have developed a multi-agency approach to deal with the growing number of "wash-ups" including a specialized mobile search team with members that the UK and Canada have trained in rummage techniques. The National Commission on Drugs (CND), created in 1989, has taken the lead on drug prevention programs. The majority of municipalities on the island have counternarcotics organizations, and those that do not are in the process of creating them. The prevention programs focus on education and outreach to marginal groups that may be at risk.

A comprehensive counternarcotics action plan has been drawn up which will involve the Ministries of Health, Justice and Education, among others, in coordinating a long-term prevention strategy. The lack of

emphasis on treatment for existing addicts may corroborate the GOC's contention that the problem remains contained.

### **IV. U.S. Policy Initiatives and Programs**

**Bilateral Cooperation.** Although there is no bilateral counternarcotics agreement between the United States and Cuba, cooperation continues to occur on a case-by-case basis. Coordination between the U.S. Coast Guard and Cuba's TGF moved forward when the GOC opened a direct line of communication between the TGF and the U.S. Coast Guard Drug Interdiction Specialist (DIS) at the U.S. Interests Section in Havana. The DIS was invited to participate in two boarding operations, and toured several border guard units around the country as a guest of the TGF. The GOC recently authorized the DIS to demonstrate various types of drug interdiction equipment to appropriate TGF officials.

**The Road Ahead.** If coordination between the U.S. Coast Guard, both in Miami and at the U.S. Interests Section, continues its present course, it should lead to increasing results in interdiction operations in the Caribbean.

# Dominican Republic

## I. Summary

The Dominican Republic (DR) is a major transit country for South American drugs, mostly cocaine, moving to the United States. The government continued to cooperate closely with the U.S. in counternarcotics matters. Last year (2001) saw an increase in illegal drug seizures; new found cooperation between the Government of the Dominican Republic (GODR) and the Haitian police; a more responsive, if still case-by-case, extradition process; and progress toward enactment of a strong anti-money laundering law. (For details on the GODR's anti-money laundering initiatives in 2001, see the Money Laundering section of this report.) Although the GODR made efforts to combat corruption in 2001, corruption and weak governmental institutions remained an impediment to controlling the flow of illegal narcotics through the DR.

The DR is a party to the 1988 UN Drug Convention.

## II. Status of Country

There is no significant cultivation, refining, or manufacturing of major illicit drugs in the DR. The country's primary role in regional drug trafficking is as a transshipment point.

Seizures in 2001 continued to indicate that cocaine, heroin, and marijuana destined for the United States and, to a lesser extent, Europe were being transshipped through the DR and its territorial waters. Puerto Rican authorities also noted an increase in drug smuggling via the ferries operating between Puerto Rico and the DR.

Dominican nationals play a major role in the actual transshipment of drugs. Many "go-fast" crews in the Caribbean include Dominican nationals, mostly fishermen recruited from the local docks. The crews speak Spanish, move easily throughout the Caribbean, and are recruited for very low amounts of money.

The DR is not a producer of precursor chemicals, but there is continued concern about their importation.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** After the success of "Operation Hurricane," the two-week U.S. Government-sponsored counternarcotics effort involving 19 Caribbean countries including the DR and Haiti, the DR initiated bilateral intelligence-sharing and interdiction efforts with Haiti. The DR has continued to participate in annual Caribbean-wide counternarcotics operations.

The National Directorate for Drug Control (DNCD) and the National Drug Council (CND) participated in an anticorruption initiative to computerize and track all seizures of assets in connection with drug-related offenses.

The Dominican Senate has passed new anti-money laundering legislation that U.S.-funded programs helped draft and promote. It now awaits action in the Chamber of Deputies (Lower House of Congress). (See the Money Laundering section of this report.) The GODR is also working, with U.S. support, to develop and enact a revised criminal procedures code.

**Law Enforcement Efforts.** The DNCD constructed a training academy and increased its canine program to 20 dogs and handlers.

Dominican military and law enforcement agencies participated in a two-week multilateral counternarcotics operation focused on Caribbean priority targets. The DR served as the northern command center during the operation.



**Cultivation/Production.** Marijuana was cultivated on a relatively small scale for local consumption only. Fields were discovered occasionally and destroyed in various areas throughout the country.

The GODR launched on-going investigations into possible in-country manufacture of MDMA (ecstasy).

**Drug Flow/Transit.** The DNCD increased drug seizures over those of 2000, logging almost daily interdictions of body-carried heroin and cocaine through the DR's international airport. Through December 2001, with USG cooperation and assistance, the DNCD seized 1800 kilograms of cocaine, 17 kilograms of heroin, and 3794 kilograms of marijuana. The DNCD continued to focus its ongoing investigations and interdiction operations on the drug-transit routes in the DR's territorial waters along the northern border and on its land border crossings with Haiti. The DNCD focused its investigations and interdiction efforts on preventing air drops of illicit narcotics to vessels waiting offshore or to sites on land.

In 2001, drugs became easily accessible for local consumption in most metropolitan areas. The DR attracted a substantial number of tourists from Europe, the United States, and Canada who provided a customer base for local drug sales, especially at the beachfront vacation resorts. Traffickers often used drugs to pay low-level couriers and distributors.

The DNCD made 3708 drug-related arrests in 2001; of these, 3496 were Dominican nationals and 212 were foreigners. There were 907 fewer drug-related arrests in 2001 than in 2000, but the number of foreigners arrested increased by 51 over 2000.

**Extradition.** The U.S.-Dominican Extradition Treaty dates from 1910. Extradition of nationals is not mandated under the treaty, and for many years Dominican legislation barred the extradition of Dominican nationals. Former President Fernandez signed legislation in 1998 allowing the extradition of Dominican nationals. In March 2000, the U.S. Marshals Service assigned two marshals temporarily to the DR. They received excellent cooperation from the DNCD's special Section for Fugitive Surveillance and other relevant Dominican authorities in locating fugitives and returning them to the U.S. to face justice.

President Mejia's administration continued this cooperation in 2001 and the GODR has extradited 15 Dominicans to the United States since President Mejia took office in August 2000. The DNCD has arrested 12 fugitives in response to U.S. extradition requests, including a major drug trafficker arrested in September 2001. The 12 fugitives are now in custody pending extradition to the United States. In addition, Dominican authorities deported 14 U.S. citizens and third-party nationals wanted by U.S. justice authorities.

**Mutual Legal Assistance.** The GODR cooperates with USG agencies, including the DEA, FBI, U.S. Customs Service, and U.S. Marshals Service, on counternarcotics and fugitive matters. The DNCD and Haitian police cooperated in a joint counternarcotics effort in September 2001, "Operation Hurricane." This led to weekly meetings along the border between Dominican and Haitian authorities to share information.

**Corruption.** The GODR's Migration Directorate removed over 100 inspectors and supervisors in 2001 for allowing people to travel to the U.S. and Europe without proper documentation. The Customs organization transferred 90 employees from Las Americas International Airport for extortion in 2001. 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-related money laundering.

Dominican institutions remain vulnerable to influence by interest groups or individuals with money to spend, including narcotics traffickers. The GODR has not prosecuted any senior government official for engaging in, encouraging, or in any way facilitating the illicit production or distribution of illicit drugs or controlled substances, or the laundering of proceeds from illegal drug transactions.

The GODR continues efforts to strengthen enforcement of a 1979 law that requires senior appointed, civil service, and elected officials to file financial disclosure statements. In what may be a regional model

for transparency and an indication of the seriousness of the Dominican judiciary to uphold the ethical quality of employees, the sworn financial disclosure statements for all Dominican judges can be found on the Internet at <http://www.suprema.gov.do/jueces/dj.htm>. Nonetheless, an effective system to verify these statements has not yet been implemented and there are no sanctions for false statements.

The GODR is a party to the Inter-American Convention Against Corruption and in 2001 signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention.

**Precursor Chemical Control.** The Secretariat of Health is responsible for the control of chemicals entering and departing the DR. The CND has prohibited the re-exportation of certain chemicals.

**Domestic Programs (Demand Reduction).** The leadership of the CND, which is responsible for demand reduction programs, changed in July 2001. The new leaders are in the process of reviewing various potential programs for demand reduction.

**Agreements and Treaties.** In 2001, the GODR again granted a four-year extension of overflight authority to the USG for rapid response in counternarcotics and alien smuggling operations. This temporary extension of overflight authority was in lieu of an agreement to expand a 1995 U.S.-GODR bilateral maritime agreement to include overflight and order-to-land authority. In 1984, the United States and the DR entered into an agreement on international narcotics control cooperation. The United States and the DR exchanged instruments of ratification of the Treaty for the Return of Stolen or Embezzled Vehicles in August. Attempts to implement the treaty have been hampered by organizational weaknesses within the Dominican bureaucracy. The DR has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, the Protocol against the Smuggling of Migrants, and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms. The DR also is an active participant in ongoing negotiations to reach a Caribbean regional maritime counternarcotics agreement.

## IV. U.S. Policy Initiatives and Programs

Cocaine trafficking, money laundering, institutional corruption, and reform of the judicial system remain the United States' primary counternarcotics concerns in the DR. The USG and the GODR 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, develop and maintain strict controls on precursor chemicals, and improve its demand reduction programs.

During 2001, the United States provided essential equipment and training to expand the counternarcotics canine units, helped the DNCD launch its vetted special investigation unit, supported the DNCD's border units, provided radio equipment for the DNCD's border units to use on the DR's border with Haiti, and funded development of an automated tracking system to manage seized assets. The United States also delivered two decommissioned U.S. Coast Guard vessels to the DR Navy; an 82-foot patrol boat and a 180-foot buoy tender. The United States directed its military assistance in the DR toward training and maintaining military assets critical for narcotics interdiction.

The United States has funded training to the DNCD Fugitive Surveillance Unit, helping it locate, apprehend, and extradite individuals wanted on criminal charges in the United States. The U.S.-funded machine-readable passport system was put into operation and immigration control computers were purchased for a second airport, Punta Cana. Enhanced computer training and database expansion were provided to the DNCD.

The Dominican Navy and Air Force have established a direct communications agreement with the U.S. Coast Guard's regional operations center (GANTSEC) in San Juan, Puerto Rico. Dominican Navy vessels have participated in numerous maritime drug seizures. The GODR has proposed establishment of a joint U.S.-DR Rapid Response Operations Center in Santo Domingo.

USAID's "Strengthened Rule of Law and Respect for Human Rights" program continues to work with the Dominican court and prosecutorial system to improve the administration of justice, enhance access to justice, and support anticorruption programs. Improvements achieved to date include speedier, more transparent judicial processes managed by better-trained, technically competent, and ethical judges who insist upon stricter adherence to due process.

The USAID program continues to provide training to prosecutors in basic criminal justice and prosecutorial skills. Criminal policy development assistance provided to officials, in both the Attorney General's Office and anticorruption units, resulted in high-profile public sector corruption investigations and in the filing of charges against three Cabinet-level officials of the previous administration. Other high-profile investigations are ongoing.

The USG has taken the initiative in bringing together a group of high-profile Dominican business leaders. These leaders have indicated willingness to provide private funding for drug prevention programs in the DR.

The United States is developing programs to deploy U.S. mobile training teams for the DNCD's border units, provide computer links to enhance the DNCD's ability to track equipment, and provide increased support for Dominican naval patrols of the Mona Passage.

**The Road Ahead.** The immediate U.S. goal remains helping to institutionalize judicial reform and good governance. The DR and U.S. are working to build coherent counternarcotics programs that can resist the pressures of corruption and can address new challenges brought by innovative narcotics trafficking organizations.

The USG and GODR will continue strengthening drug control cooperation through sharing of information and developing closer working relations among principal agencies. The U.S. will work closely with the DR to ensure that the new asset seizure tracking system is fully utilized. The U.S. will continue providing training for the DNCD's border control units, focusing its attention on providing the intelligence necessary to disrupt cross-border narcotics smuggling. Support for the retraining and recertification of the DNCD canine units will continue. The DNCD's fugitive investigation teams will have hands-on U.S. support for their efforts pursuing Dominican fugitives from U.S. justice seeking refuge in the DR. USAID and the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) will provide further training to prosecutors, increasing their professionalism and ensuring that they are prepared to implement the new Criminal Procedures Code, should it be enacted into law. U.S. support for the Mejia administration's efforts to curb corruption will continue through U.S.-funded programs to strengthen the Attorney General's Anticorruption Prosecutor Department.

USAID has supported analysis and public debate which led to the drafting of important legislation to reform the Criminal Procedures Code, create a Public Ministry (prosecutors) Career Statute, reform the National Police, and strengthen anti-money laundering laws. The Criminal Procedures Code is under consideration in the Dominican Senate. An automated criminal case tracking system pilot project is expected to be operational in the Santo Domingo District in 2002.

## *Dominican Republic Statistics*

*(1993–2001)*

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Seizures</b>									
Cocaine (mt)	1.8	1.27	1.01	2.34	1.35	2.14	3.60	2.80	1.07
Heroin (mt)	0.017	0.020	0.012	0.069	0.008	0.005	—	—	—
Marijuana (mt)	3.794	2.90	0.18	0.11	0.78	1.01	1.00	6.81	0.31
<b>Arrests/Detentions</b>									
Nationals	3,496	4,454	3,918	1,676	1,431	3,097	3,388	2,810	—
Foreigners	212	161	111	—	50	69	11	158	—
<b>Total Arrests</b>	<b>3,708</b>	<b>4,615</b>	<b>4,029</b>	<b>1,676</b>	<b>1,481</b>	<b>3,166</b>	<b>3,399</b>	<b>2,968</b>	<b>5,635</b>

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# Dutch Caribbean

## I. Summary

Aruba, the Netherlands Antilles, and the Netherlands (Holland) form 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.

## II. Status

### *Netherlands Antilles*

The islands of the Netherlands Antilles (NA) (Curaçao and Bonaire off Venezuela and Saba, Saint Eustatius, and Saint Maarten east of the U.S. Virgin Islands) continue to serve as northbound transshipment points for cocaine and increasing amounts of heroin coming from South America; chiefly Colombia, Venezuela, and Suriname. These shipments typically are transported to U.S. territory in the Caribbean by “go-fast” boats and to Europe by “mules” (drug couriers) using commercial flights. Evidence in 2001 did not support a finding that drugs now entering the United States from the Netherlands Antilles are in an amount sufficient to have a significant effect on the United States, but the entire eastern and southern Caribbean is an area of U.S. concern. The DEA and local law enforcement saw an increase this year in go-fast boat traffic, much of which moved to Saint Maarten en route to Puerto Rico or the U.S. Virgin Islands. Consistent with the increased go-fast traffic, arrests of “mules” at Hato Airport by local law enforcement were frequent in 2001, filling Curaçao’s old prison to capacity. Although a new prison opened in March, stubborn management problems continue. A spate of escapes led the Minister of Justice to suspend 175 guards in the fall. Dutch marines stationed in the NA are providing perimeter security temporarily. Various sources continue to report that, in addition to the go-fast activity and the small amounts intercepted by customs officers at the airport, large quantities of narcotics moved through in containers. Seizures from containers in 2001 tend to support this suspicion. In November, a total of 101 kilograms of cocaine and 50 kilograms of heroin were seized from a container in Saint Maarten. Statistics on significant seizures in 2001 indicate that Dutch Saint Maarten poses a serious threat as a staging ground for moving cocaine and heroin into the U.S. market.

The crime and homelessness stemming from drug abuse remain important concerns for the GONA. The rise in drug abuse is attributed to payment for drug trafficking services in cocaine rather than in cash as well as to a difficult economic situation. There were at least ten drug-related homicides in 2001. The role of narcotics trafficking and distribution was an important issue in the campaign leading to the January 2002 national elections. Elected officials and all elements of the law enforcement and judicial community recognize that the NA, chiefly due to geography, faces a serious threat from drug trafficking. The police, who are understaffed and need additional training, do not feel they have adequate resources to fight the threat effectively. The rigorous legal standards that must be met to prosecute cases significantly constrain the effectiveness of the police. Nevertheless, local police made significant progress in 2001 in initiating complex, sensitive cases targeting upper-echelon traffickers. These efforts reflected the understanding that an effective strategy requires cooperation with other law enforcement entities in the region.

The far-reaching restructuring of the police, begun in 2000, is starting to show results. The police department also has instituted an assignments policy, “the right man for the right job,” in order to address the long-standing problem that the personnel system rewards length-of-service rather than effectiveness.

While pay is still linked to seniority, the new system is designed to reward initiative rather than only tenure in the department. Recognizing the key role played by the criminal investigation service (CID), the police chief has made improving the CID his top priority. Second on his list of priorities is improving the expertise of the financial investigation team. The specialized Dutch police units (RSTs) that support law enforcement in the NA continued to be dynamic and effective in 2001. The RSTs showed an increasing ability to think globally when combating trafficking organizations. In addition, the RSTs have started to serve their intended purpose: the increased inclusion of local officers into investigative strategies to ensure exchange of expertise and information.

In addition to these improvements in law enforcement, the GONA demonstrated its commitment to the counternarcotics effort by continued support for a U.S. Forward Operating Location (FOL) at Curaçao's Hato International Airport. Under a ten-year use agreement signed in March 2000 and ratified in October 2001 by the Dutch Parliament, U.S. military aircraft are conducting counternarcotics detection and monitoring flights over both the source and transit zones from commercial ramp space provided free of charge.

The Netherlands Antilles and Aruba Coast Guard (CGNAA) is an increasingly mature organization and scored a number of impressive successes in 2001. The CGNAA was responsible for several seizures of both cocaine and marijuana. In August, the CGNAA seized 750 kilograms of marijuana from "go-fast" boats. The marijuana was destined for the Curaçao local market. The CGNAA's three cutters, outfitted with rigid-hull inflatable boats designed especially for counternarcotics work in the Caribbean, demonstrated their utility against go-fast boats and other targets.

The CGNAA has developed a very effective counternarcotics intelligence service and is considered by the U.S. Coast Guard and DEA to be an invaluable international law enforcement partner. Authorities in both the NA and Aruba are intent on ensuring that there is a proper balance between the CGNAA's international obligation to stop narcotics trafficking through and to the islands, and its local responsibility to stop narcotics distribution on the islands. In 2002, the Coast Guard intends to increase its operating hours from 2800 to 4200 with additional resources provided by the Dutch government. Under the leadership of an outstanding, highly professional Attorney General, the GONA continued to strengthen its cooperation with U.S. law enforcement authorities throughout 2001. This cooperation extended to Saint Maarten, where the United States and the GONA continued joint efforts against international organized crime and drug trafficking.

### *Aruba*

Aruba is a transshipment point for cocaine and increasing quantities of heroin moving north, mainly from Colombia, to the U.S. and Europe. Drugs move north via cruise ships and the multiple daily flights to the U.S. and Europe. Evidence in 2001 did not support a finding that drugs entering the U.S. from Aruba were in an amount sufficient to have a significant effect on the U.S., but the eastern and southern Caribbean is an area of concern to the U.S. The island attracts drug traffickers with its good infrastructure, excellent flight connections, and light sentences for drug-related crimes, which are served in prisons with relatively good living conditions. Of increasing concern is the involvement of Aruban students in transporting drugs, mostly MDMA (ecstasy), from the Netherlands to the islands or the U.S.

While Aruba is, by any standard, a relatively crime-free island, Arubans worry about the easy availability of inexpensive drugs. They have begun to talk about traffickers being paid in cocaine rather than cash. Traffickers then convert the cocaine into cash, it is said, by cultivating new users. The most visible evidence of a drug abuse problem may be the homeless addicts, called chollars, whose photographs appear in the press in connection with stories about drug abuse and the increase in crime.

Drug abuse in Aruba remains a cause for concern. Private foundations on the island work on drug education and prevention and the Aruban government's top counternarcotics official actively reaches out to U.S. sources for materials to use in his office's prevention programs. The police also work in demand reduction programs for the schools and visit them regularly. The government has established an

interagency commission to develop plans and programs to discourage youth from trafficking between the Netherlands and the U.S. The new government, seated November 1, has been very clear that it intends to pursue a dynamic counternarcotics strategy in close cooperation with its regional and international partners.

In 2001, Aruban law enforcement officials saw benefits from their changed counternarcotics trafficking strategy. Instead of using limited resources to arrest low-level “mules,” mostly at the airport, law enforcement officials shifted their focus to investigating and prosecuting mid-level drug traffickers who supply drugs to the endless parade of “mules.” The best example occurred in April 2001. Sixteen investigators worked full time on a multi-jurisdictional case that involved the use of cruise ships to smuggle heroin into the U.S. In total, 25 kilograms of heroin and about U.S. \$510,000 were seized.

A plan is underway to reorganize the police. The plan includes establishing four (vice three) districts, each autonomous with its own detectives’ division and led by a District Commissioner. Officers will rotate periodically through the police functions. The aim is to put more police on the streets to counter criticism that so little attention is now given to low-level street pushers that they enjoy virtually unimpeded freedom to sell widely available and cheap drugs to Aruban youth. A new Attorney General was appointed in February 2002. The GOA took further positive steps in 2001 to demonstrate its commitment to the international effort to combat drug trafficking. After accommodating the placement of U.S. Customs aircraft at a Forward Operating Location (FOL) at Reina Beatrix International Airport in 1999, the GOA continued throughout 2001 to make valuable commercial ramp space available to both U.S. military and U.S. Customs aircraft conducting aerial counternarcotics detection and monitoring missions.

As part of its push to bring a still larger U.S. law enforcement presence to Aruba, the GOA welcomed U.S. Customs Service (USCS) and U.S. Department of Agriculture’s Animal and Plant Health Inspection Service (APHIS) pre-clearance personnel in April 2000. They joined the pre-inspection unit that the U.S. Immigration and Naturalization Service (INS) had established previously. These officers occupy facilities financed and built by the GOA. USCS seizures of cocaine, heroin, and ecstasy were frequent in 2001 and traffickers turned over to the Aruban authorities contributed to the overcrowding of the facility. Aruban officials actively and creatively explored ways to capitalize on the presence of the FOL and pre-clearance personnel, seeking to use resident U.S. law enforcement expertise to improve local law enforcement capabilities.

Aruba also continued to participate in the Coast Guard of the Netherlands Antilles and Aruba, which, as noted above, is enjoying increased effectiveness as the organization matures.

### III. Actions Against Drugs in 2001

**Agreements and Treaties.** The Netherlands extended the 1988 UN Drug Convention to the NA and Aruba in March 1999, with the reservation that its obligations under certain provisions would only be applicable in so far as they were in accordance with NA and Aruban criminal legislation and policy on criminal matters. The NA and Aruba subsequently enacted revised, uniform legislation to resolve a lack of uniformity between the asset forfeiture laws of the NA and Aruba. In October 2001, the Kingdom of the Netherlands ratified a ten-year agreement with the United States that allows U.S. law enforcement and military aircraft to use commercial airports on Curaçao and Aruba as Forward Operating Location (FOL) sites. These sites provide bases for aerial counternarcotics detection, monitoring, and, as appropriate, interdiction activities in the neighboring region.

The obligations of the Netherlands as a party to the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, apply to the NA and Aruba. The obligations of the Netherlands under the 1971 UN Convention on Psychotropic Substances have applied to the NA since March 10, 1999. The Netherlands’s Mutual Legal Assistance Treaty (MLAT) with the United States applies to the NA and Aruba, although it is not applicable to requests for assistance relating to fiscal offenses addressed to the NA and Aruba. Both Aruba and the NA routinely honor requests made under the MLAT and cooperate

extensively with the United States on law enforcement matters at less formal levels. While neither Aruba nor the NA has specific legislation controlling precursor chemicals, the DEA reports excellent informal cooperation from the relevant pharmaceutical authorities.

**Cultivation/Production.** Cultivation and production of illicit drugs are not issues.

**Seizures.** Available drug seizure statistics (rounded to the nearest kilogram where appropriate) for calendar year 2001 are as follows:

**Netherlands Antilles:** 1.043 metric tons of cocaine, 72 kilograms of heroin, 3.772 metric tons of marijuana, 179 grams of hashish, and 20,465 ecstasy tablets

**Aruba:** 266 kilograms of cocaine, 65 kilograms of heroin, 1.159 metric tons of marijuana, 40 grams of hashish, and 59,874 ecstasy tablets

**Corruption.** The effect of official corruption on the production and processing of illegal drugs is not an issue for either Aruba or the NA. Furthermore, there is no evidence to indicate that public officials are involved in the shipment of drugs, the laundering of illegal drug proceeds, or in discouraging the investigation or prosecution of drug shipment. To prevent such public corruption, there is a judiciary that enjoys a well-deserved reputation for integrity. It has close ties with the Dutch legal system including extensive seconding of Dutch prosecutors and judges to fill positions for which there are no qualified candidates among the small Antillean and Aruban populations.

**Domestic Programs (Demand Reduction).** Both the NA and Aruba have ongoing demand reduction programs, but need additional resources.

#### IV. U.S. Policy Initiatives and Programs

The Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) does not provide counternarcotics assistance to the governments in the Dutch Caribbean, although the United States encourages Aruba and NA law enforcement officials to participate in INL-funded regional training courses at the GOA and GONA's expense. A demand reduction speaker program that was originally scheduled for 2001 is expected to be rescheduled in 2002. Chiefly through the DEA, the United States is able to provide limited assistance to enhance technical capabilities as well as some targeted training. The U.S. is also beginning to search for ways in which locally assigned U.S. law enforcement personnel can share their expertise with host country counterparts.

Appreciation of the importance of intelligence to effective law enforcement has grown in the Dutch Caribbean. The USG is expanding intelligence sharing with GOA and GONA officials as they realize the mutual benefits that result from such sharing. Because U.S.-provided intelligence must meet the strict requirements of local law, sharing of intelligence and law enforcement information requires ongoing, extensive liaison work to bridge the difference between U.S. and Dutch-based law.



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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**—form the eastern edge of the Caribbean transit zone for drugs, mostly cocaine, cannabis products and heroin, traveling from South America to the U.S. and other global markets. Illicit narcotics transit the eastern Caribbean mostly by sea, as shipments are moved to continental North America or Europe. Maritime narcotics shipments within the region are destined for Puerto Rico and other U.S. island territories, as well as the British, French, and Dutch jurisdictions in the Caribbean. The Joint Interagency Task Force-East (JIATF-E) continued to report airdrops of cocaine in the eastern Caribbean in 2001.

The level of cocaine, marijuana, and heroin trafficked through individual countries to the U.S. does not reach the level needed to designate any one of them a major drug-transit country under the Foreign Assistance Act of 1961, as amended (the “FAA”). Nonetheless, the President’s November 2001 notification to the U.S. Congress of the list of major drug source and transit countries stated that the entire eastern and southern Caribbean is an area of concern to be kept under observation.

Marijuana crops are grown in St. Vincent and the Grenadines, St. Lucia, and Dominica, primarily for local use or for export to other islands in the region and Europe. The overall level of production is below the threshold for designating any of these countries as major drug producers under the FAA, yet the extent of marijuana production within St. Vincent and the Grenadines is significant in relation to its gross domestic product.

Drug trafficking, and the crimes that derive from it—money laundering, drug use, political influence buying, violent crime, and intimidation—threaten the stability of the small, independent, democratic countries of the eastern Caribbean. To varying degrees, the destructive nature of the drug trade and organized crime-related corruption have damaged civil society in all of these countries.

Regional and international drug trafficking organizations (DTOs) and various organized crime groups have infiltrated many of the eastern Caribbean nations, establishing their own infrastructure, corrupting officials, and contracting the services of local criminal organizations. To move illegal drugs within the region, many traffickers use a barter system, paying for services with drugs and/or weapons to limit costs and to increase demand and markets in the region. As a result, increased amounts of cocaine and crack cocaine remain in the eastern Caribbean and contribute to violent crime. Terrorist organizations could easily tap into the infrastructure built by DTOs operating in the region, and may already have done so.

The seven eastern Caribbean states are party to the 1961 UN Single Convention and the 1988 UN Drug Convention. Other than St. Lucia and St. Vincent and the Grenadines, all countries are party to the 1971 UN Convention on Psychotropic Substances. Two of the seven states have signed the Inter-American Convention against Corruption. All seven governments have signed and brought into force bilateral mutual legal assistance and extradition treaties with the U.S. The U.S. government has maritime drug law enforcement agreements with all of the independent eastern Caribbean nations.

Eastern Caribbean officials regard marijuana production and trafficking as serious concerns. Dominica, St. Lucia, St. Kitts and Nevis, and Grenada have active ground-based eradication programs. “Operation Weedeater” U.S. airlift-assisted eradication exercises in St. Vincent and the Grenadines scheduled for autumn 2001 were postponed due to U.S. military airlift resource constraints arising from homeland defense requirements and the war in Afghanistan.

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 eradication campaigns as a means to combat high

levels of marijuana use in the eastern Caribbean and the corrupting and corrosive effect of the illegal trade in marijuana. In general, eastern Caribbean law enforcement agencies are committed to controlling drug trafficking and working with their U.S. counterparts. However, significant personnel and other 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 DTO ringleaders, complex financial investigations, money laundering, and asset forfeiture cases are unusual in most jurisdictions.

Some of the necessary criminal statutes exist in all eastern Caribbean countries, such as asset forfeiture and money laundering laws, yet most jurisdictions lack the modern legal infrastructure that would allow law enforcement agencies to effectively penetrate organized criminal groups. The May 1996 Barbados Plan of Action and the U.S.-Caribbean Summit Justice and Security Action Plan, as well as Caribbean police authorities on a regular basis, call for modern laws covering wiretap, controlled deliveries, conspiracy, authorization of undercover investigations, the use of paid informants, and plea bargaining. However, an apparent lack of political will to tackle these issues has effectively thwarted such legal initiatives in most eastern Caribbean jurisdictions. Meanwhile, law enforcement and judicial authorities in some countries complain of having to develop cases against sophisticated, twenty-first century criminal groups with nineteenth century legislation and rules of conduct. Without a serious, broad-based modernization effort, it is unlikely the region's criminal justice systems will develop significant defenses against DTOs, terrorist organizations, money launderers, and other international and regional criminals and criminal groups.

Most of the seven countries devote significant resources and effort to maritime drug interdiction operations. In the absence of investigative leads, however, these efforts are costly and of limited effectiveness. Law enforcement authorities in the region acknowledge the need for increased information collection and sharing, and several of the countries have installed inter-agency drug intelligence centers. Traditional rivalries between law enforcement bodies and, in some jurisdictions, an apparent lack of political commitment to create and ensure the success of such centers, have hindered progress on these initiatives. All Eastern Caribbean countries routinely participate in Operation CARIBE VENTURE, an international effort to deny smugglers the use of maritime routes in this region. During 2001, two CARIBE VENTURE operations were scheduled; the last one was cancelled due to the terrorist attacks and the resultant focus on maritime homeland security.

Countries that have tried to broaden their offshore financial sectors without implementing effective regulation and oversight have been especially vulnerable to money laundering and other financial crimes. This phenomenon is addressed in detail in the money laundering section of this report.

Dominica, Grenada, and St. Kitts and Nevis have poorly regulated economic citizenship programs. St. Vincent and the Grenadines has eliminated its program, while the Government of Grenada has suspended its program for the time being. Unscrupulous individuals, including suspected criminal organization members, have taken advantage of these programs to ease travel and to modify and/or create multiple identities. Such individuals have also used these false identities to help create the offshore entities used in money laundering, financial fraud, migrant smuggling, and other illicit activities, as well as to facilitate the travel of the perpetrators of these crimes.

In 2001, the eastern Caribbean countries continued to work to implement the 1997 Caribbean-U.S. Summit Justice and Security Action Plan. The plan sets out a comprehensive set of measures to combat transnational crime, particularly drug trafficking and money laundering. It 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. Eastern Caribbean governments still need to take significant internal steps, particularly with respect to legislating and implementing police modernization, in order to meet certain basic commitments.

The eastern Caribbean states also continue to carry out the Barbados Plan of Action developed at the UN-Caribbean regional drug conference in 1996. The states have achieved considerable progress on many elements of the plan, but the USG shares other donors' concerns about the need to integrate demand

reduction and interdiction activities more effectively under national drug councils. Doing so would increase information sharing and improve bilateral and multilateral cooperation concerning counternarcotics.

The seven eastern Caribbean countries continued to support the Regional Security System (RSS), a treaty-based organization to which all seven countries belong. The RSS coordinates some counternarcotics operations among member states. The RSS continued to operate a maritime training facility in Antigua for member-nation forces. Local instructors, assisted by U.S. and British trainers, provide various law enforcement and seamanship courses. In 1999, the U.S. delivered to Barbados the first of two C-26 surveillance aircraft, which, with U.S. assistance, the RSS is using to conduct maritime surveillance. In 2001, the U.S. delivered a second C-26 aircraft to Barbados, which the RSS has used to enhance its tactical maritime capability. During 2002, the U.S. will provide ongoing support for the operation and maintenance of both C-26 aircraft. Support for these aircraft will require a greater financial commitment on the part of the RSS member countries when USG support to the program concludes. In one noteworthy operation in November 2001, the RSS C-26 program played a pivotal detection and command/control role in a maritime interdiction that resulted in multiple arrests and the seizure of cocaine with an approximate street value of \$206,000,000. The shipment was headed to the United States.

## II. Status of Countries and Actions Against Drugs in 2001

**Antigua and Barbuda.** The islands of Antigua and Barbuda are transit sites for narcotics 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 drug transfer operations. Cannabis cultivation on the islands is not significant and is largely for local consumption. Antigua has implemented a computerized Regional Clearance System, a regional initiative of the Caribbean Customs Law Enforcement Council which registers small craft and crew movements in the Caribbean. In addition, the Immigration Department has modernized its arrival/departure traveler tracking systems.

Antigua and Barbuda is a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The Government of Antigua and Barbuda (GOAB) has not signed the Inter-American Convention against Corruption or the Inter-American Convention on Mutual Legal Assistance on Legal Matters. The GOAB has signed but not ratified the Inter-American Convention against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials (Inter-American Firearms Convention). The GOAB has signed the UN Convention against Transnational Organized Crime.

The USG and the GOAB signed a maritime drug law enforcement cooperation agreement in 1995, and an overflight agreement in 1996. In 1999, the GOAB was the first eastern Caribbean government to bring into force the new extradition and mutual legal assistance treaties with the U.S. The GOAB was responsive to USG-initiated mutual legal assistance requests in 2001. The U.S. has made one extradition request to Antigua and Barbuda since the treaty entered into force. This request, originally made in November 1999 and resubmitted in 2001, is currently awaiting the Magistrate’s decision after a lengthy contested hearing.

The GOAB inaugurated its new Office of National Drug Control and Money Laundering Policy in 2001. The modern facility houses the National Joint Headquarters, the Financial Intelligence Unit, the Financial Investigations Unit, the Drugs Intelligence Unit, and the government’s Drug Control Policy Unit. As of November 2001, GOAB forces had seized six kilograms of cocaine and 356 kilograms of marijuana, arrested 128 persons on drug-related charges, and eradicated 14,616 cannabis plants. The GOAB has model asset seizure legislation, and has received substantial funds via its asset seizure/sharing agreements with other countries.

The rehabilitation center in Antigua and Barbuda is Crossroads, a 36-bed private drug treatment facility that offers treatment to international and a limited number of local clients who can take advantage of special payment and after-treatment work programs to cover the cost of treatment. In 2001, Crossroads and the GOAB established a halfway house for recovering substance abusers in the capital, St. John's.

**Barbados.** Barbados is a transit country and hub for cocaine products, heroin, and designer drugs entering by sea and by air from Colombia, Venezuela, Trinidad and Tobago, Guyana, and elsewhere in the region. These drugs often enter Barbados in container vessels, while smaller vessels also bring in marijuana from St. Vincent and the Grenadines. Relatively small amounts of marijuana are grown in Barbados. Container freight-forwarders and cruise lines are also reported to transport cocaine via Barbados. Most cocaine shipments entering Barbados and its territorial waters are destined for North America and Europe. However, in recent years, domestic cocaine and crack consumption has increased.

Barbados is party to the 1961 UN Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Barbados has signed, but not ratified the Inter-American Convention against Corruption and the Inter-American Firearms Convention. Barbados has not signed the Inter-American Convention on Mutual Legal Assistance. Barbados has signed the United Nations Convention against Transnational Organized Crime and its three protocols. The GOB and the USG have brought into force three important agreements that will facilitate counternarcotics cooperation: a maritime agreement with overflight authority, an extradition treaty, and a mutual legal assistance treaty. In 2001, procedural and coordination difficulties interfered with Barbados's ability to cooperate with U.S. law enforcement officials to arrest and prosecute major traffickers and money launderers. Nevertheless, prosecutors, anti-money laundering unit members, and the police and immigration departments were particularly responsive to mutual assistance requests resulting from investigations into the September 11 attacks in the United States.

Barbados inaugurated its National Joint Headquarters for law enforcement, and the GOB renewed its participation in a USG counternarcotics and law enforcement foreign assistance program in 2001. The GOB also received a \$12.5 million loan from the Inter-American Development Bank to modernize its criminal justice system in 2001. The government announced plans to upgrade its police communications systems in 2002.

The newly appointed Attorney General publicly lent support to the Police Commissioner's intention (announced in December 2000) to root-out "suspicious officers" in the uniformed services; individuals who had been corrupted by narcotraffickers and other criminal actors.

The GOB has in place a penal system that provides alternative sentencing options beyond prison and fines. The initiative allows community service orders, curfew orders, and other sentencing alternatives. The law was designed to reduce prison overcrowding and provide options for dealing with youthful offenders and 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 enables law enforcement authorities to trace such proceeds, benefits, or property. The proceeds from one such case, a fraud and money laundering scheme that had operated in the U.S. and Barbados, netted the GOB \$100,000 of the funds ordered forfeited by a U.S. court. In another case, Barbados seized a boat used in drug trafficking following the conviction of the principals. In November 2001, the GOB amended its law to shift the burden of proof to the accused to demonstrate that property in his/her possession or control is derived from a legitimate source. Absent such proof, the presumption will be that the property was derived from the proceeds of crime. Barbados law also provides for freezing bank accounts and prohibiting transactions from suspected accounts for up to 72 hours. These moves should enhance the GOB's ability to effectively prosecute financial crimes cases. Under Barbados law anyone convicted of money laundering by the High Court is subject to a fine of \$1 million or 25 years in prison or both. (See Money Laundering section.)

Barbados is executing a national plan concerning supply and demand reduction for the period 2001-2005. The GOB's National Council on Substance Abuse (NCSA) and the Attorney General's office endeavored with some success to link law enforcement and demand reduction organizations in the framing and execution of the national plan. NCSA and various concerned NGOs, such as the National Committee for the Prevention of Alcoholism and Drug Dependency, are very active and effective. NCSA works closely with NGOs in prevention and education efforts and skills-training centers. Barbados's excellent D.A.R.E. and PRIDE programs remained active in the school system. The mental health hospital provides drug detoxification, while the Coalition Against Substance Abuse (CASA) opened a no-cost drop-in center in 2001. Staffed by volunteer counselors, the CASA center serves addicts and their families. Barbados is also at the forefront of efforts to institute Community Policing programs in the Eastern Caribbean.

**Commonwealth of Dominica.** The Commonwealth of Dominica serves as a transshipment and temporary storage area for drugs, principally cocaine products, headed to the U.S. and Europe, mostly via the French departments of Martinique and Guadeloupe. Go-fast boats bring shipments from St. Vincent and the Grenadines and elsewhere. In addition, cannabis is cultivated in Dominica. The Dominica police regularly conduct ground-based cannabis eradication missions in rugged, mountainous areas.

Dominica inaugurated its National Joint Headquarters for law enforcement in 2001. As is the case elsewhere in the region, antiquated laws and a judicial process that emphasizes fines in lieu of jail sentences, especially for foreigners, continued to undermine efforts by the Dominica police to arrest important drug traffickers. In December 2001, the Police Commissioner called on parents, service organizations, and the government to join forces with the police to combat an upsurge in drug trafficking and gang-related violence in Dominica.

The economic citizenship program, offshore banking, international business corporations, and internet gaming are lucrative sources of income for the government. However, the government's regulatory and investigative capabilities are not adequate to prevent abuse of these industries. Act 20 of 1988, titled "Drugs (Prevention of Misuse)," permits asset forfeiture. Dominica citizenship can be purchased 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 public sector drug rehabilitation facilities in Dominica; the psychiatric hospital provides limited detoxification services.

Dominica is a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. However, Dominica has not yet signed nor ratified the Inter-American Convention on Mutual Legal Assistance in Criminal Matters, the Inter-American Convention against Corruption, or the Inter-American Firearms Convention. Dominica and the U.S. have signed and brought into force a maritime agreement. However, Dominica has not yet agreed to expand the maritime agreement to include overflight or order-to-land authority.

Dominica and the U.S. have signed and brought into force a Mutual Legal Assistance Treaty (MLAT) and an extradition treaty. Numerous MLAT and informal queries have been honored, particularly those submitted in the aftermath of the September 11 attacks in the U.S. However, the first test of the extradition treaty proved to be a major disappointment. Apparent political interference led to the release of an individual who had been caught trafficking two tons of narcotics into the U.S. from Mexico. The individual escaped custody after his initial arrest in the U.S. and then fled to Dominica where he was arrested by Dominica authorities pursuant to a U.S. extradition request. He was later released by the Attorney General. The Prime Minister subsequently dismissed the Attorney General. However, the suspect has not yet been re-arrested by the GOCD. In a separate but equally disturbing case, a high-level official in the ruling Dominica Labor Party (not a parliamentarian), with close ties to government and

opposition party officials, was arrested in the U.S. in November 2001 and charged with multiple counts of money laundering.

**Grenada.** The Government of Grenada (GOG) reports that the volume of narcotics trafficking continued to increase in 2001, particularly at the air and sea ports. Private vessels passing through and stopping in Grenada's coastal waters en route to U.S. and other markets are used to transport larger quantities of illegal narcotics. Relatively small amounts of marijuana are grown in Grenada. 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. Grenada has signed the Inter-American Convention against Corruption and the Inter-American Firearms Convention. However, Grenada has neither signed nor ratified the Inter-American Convention on Mutual Legal Assistance in Legal Matters.

The GOG and the USG signed a maritime law enforcement cooperation agreement in 1995 and an overflight and order to land amendment to the maritime agreement in 1996. The GOG and the USG have also brought into force an extradition treaty and a Mutual Legal Assistance Treaty (MLAT). Grenada's police and its financial intelligence unit have been particularly responsive to MLAT requests, particularly in the aftermath of the September 11 attacks in the U.S.

Grenada has an active offshore financial sector with offshore banks and international business corporations. An economic citizenship program, though suspended since September 2001, remains on the books. The Grenada Financial Services Authority, which was established in 2000 to oversee the offshore financial sector, has endeavored to enhance the effectiveness of its small regulatory staff since its inception. A financial intelligence unit has been legislated and trained, and is now in operation. However, critical staffing and resource constraints, particularly in bank regulation and examinations are evident. Further, serious questions remain concerning Grenada's ability to perform due diligence on applicants and otherwise properly regulate the offshore sector. (See Money Laundering section.) The Proceeds of Crime Act requires a conviction before assets can be forfeited; though assets can be seized and held prior to conviction.

The Ministry of Education's Drug Prevention Unit is very active and effective. With the participation of many government agencies, the National Council on Drug Control, headed by the Attorney General, guides national interdiction and demand reduction policy. The Council effectively 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. The D.A.R.E. Program continues to function well, and the Teen PRIDE peer intervention program was implemented in 2001. Grenada's one drug and alcohol treatment center continues to receive about 50 patients per year. Most patients are admitted for alcohol abuse; all treatment costs are borne by the government. The psychiatric hospital also provides drug detoxification.

Law enforcement agencies in Grenada cooperate well on drug control. They meet regularly to plan joint operations, thereby maximizing available assets. The government opened its National Joint Headquarters for law enforcement in 2001.

**St. Kitts and Nevis.** 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 are linked directly to South American traffickers and other organized crime groups, and appear highly organized. Local traffickers are often paid with drugs, which they then sell locally, thus increasing local drug use.

Since May 1996 the U.S. has sought the extradition of three prominent drug traffickers wanted in the U.S. on drug trafficking charges. In October 1996, a magistrate initially ruled against the extradition. An appeals judge ordered the magistrate to reconsider his decision to deny the extraditions in April 1998, noting that sufficient evidence existed to try the defendants. Despite the appellate court's order, the magistrate refused to reverse his initial decision, arguing that the original order stood because the higher

court judge had not quashed his original order. 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. The defendants then filed notice of their intent to appeal the high court's decision to the U.K. Privy Council, the last court of appeal for the English-speaking Caribbean. Due to technical problems that arose with court records produced in St. Kitts, the Privy Council has not yet heard the case. The defendants remain free on bail.

In late February 2000, one of the three defendants appeared before a magistrate in St. Kitts, waived his rights, and stated his willingness to surrender to U.S. authorities. He was then transported to the U.S. to face trial. A Florida jury convicted him of two felony trafficking charges on December 5, 2000. .

The Government of St. Kitts and Nevis (GOSKN) has made no effort since 1997 to seek the conviction of the assassin of Superintendent of Police Jude Matthew. A suspect in this drug-related case was tried three times since the 1994 killing, and none of the juries has voted for convictions. During the third trial, which ended in June 1997, six people, including one of the three men the U.S. sought to extradite (above), were arrested and charged with jury tampering. The cases against these individuals were ordered to be dropped for procedural reasons.

St. Kitts and Nevis is party to the 1961 UN Single Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The GOSKN has neither signed nor ratified the Inter-American Convention on Mutual Legal Assistance in Legal Matters or the Inter-American Convention against Corruption. The GOSKN has signed but not yet ratified the Inter-American Firearms 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. In 2000, the USG and the GOSKN brought into force extradition and mutual legal assistance treaties.

St. Kitts and Nevis developed a master plan for drug control in 1996. Implementation of the plan was problematic, largely due to budgetary problems. The plan was refined and submitted to parliament in December 2000 by a newly energized committee. Under able leadership, the Committee made great progress in 2001. The police operate a very successful D.A.R.E. program in the federation, positively affecting the lives of thousands of students and their families.

The GOSKN Defence Force continued to augment the police's counternarcotics efforts, particularly in cannabis eradication operations. The government opened its National Joint Headquarters (NHQ) in 2000. The NHQ serves as communications and cooperation hub for various law enforcement entities in the twin island federation. The high degree of drug trafficking activity through and around St. Kitts and Nevis and the presence of known, active traffickers in St. Kitts place this small country at great risk for corruption and money laundering activity. (See Money Laundering section.)

**St. Lucia.** St. Lucia has experienced a rapid increase in cocaine trafficking over the past five years. International narcotics traffickers are active in St. Lucia, working with local transshippers to stockpile cocaine and marijuana awaiting onward shipment. Much of the cocaine comes from Colombia through Venezuela, either directly or via 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. Drugs are commonly smuggled onto St. Lucia's rugged coastline through offshore airdrops followed by small boat transport to seaside caches. Some marijuana is cultivated, mostly for local consumption. The Government of St. Lucia (GOSL) has a good record on counternarcotics cooperation with USG law enforcement.

The USG and the GOSL cooperate extensively on law enforcement matters. There were no significant asset forfeitures in 2001. Nor were any major drug traffickers arrested in 2001. Law Number 22 of 1988, the "Drugs Prevention of Misuse Act," permits asset forfeiture after conviction. The law directs the forfeited proceeds to be applied to treatment, rehabilitation, education, and preventative measures related to drug abuse. Moreover, St. Lucia is in the process of extensive legislative reform. This legislative reform

will enhance the ability of judicial officers to prosecute financial and other crimes by updating the existing legislation to deal with wire fraud and other modern finance-related offenses.

St. Lucia is a party to the 1961 UN Single Convention, as amended by its 1972 Protocol and the 1988 UN Drug Convention. St. Lucia is not a party to the 1971 UN Convention on Psychotropic Substances. The GOSL has neither signed nor ratified the Inter-American Convention against Corruption or the Inter-American Convention on Mutual Assistance in Criminal Matters. The GOSL has signed but not yet ratified the Inter-American Convention against Firearms. 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 thereby bringing the MLAT and extradition treaties into force. In September 2001, St. Lucia signed the United Nations Convention against Transnational Organized Crime.

St. Lucia has instituted a centralized authority, the Substance Abuse Advisory Council Secretariat, to coordinate the government's national counternarcotics and substance abuse strategy. 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.** 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 are under intensive marijuana cultivation in the inaccessible northern half of St. Vincent. Because of the country's small size, cultivation does not reach the level of 5,000 hectares that the Foreign Assistance Act requires for a country to be designated as a major drug-producer, nor does it significantly affect the U.S. As such, despite the pervasive influence of the drug trade, the President has not designated St. Vincent as not designated a major illicit drug producing or major drug-transit country under the FAA. Compressed marijuana is sent from St. Vincent to neighboring islands via private vessels. St. Vincent and the Grenadines has also become a storage and transshipment point for narcotics, mostly cocaine, transferred from Trinidad and Tobago and South America on go-fast and inter-island cargo boats.

The illegal drug trade has infiltrated the economy of St. Vincent and the Grenadines and made some segments of the population dependent on marijuana production, trafficking, and money laundering. Though they acknowledge the dependence, many Vincentians have been reluctant to acknowledge the negative effects of the drug trade: a decline in civil society, drug addiction, reduced worker productivity, violent behavior, murders related to drug trafficking, disappearances, and increased general criminal activity.

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. However, with insufficient resources, their reaction capability is limited. No major traffickers were successfully prosecuted in 2001. However, in November the Government moved swiftly to seize and forfeit the assets of a once-influential money launderer after he was indicted on money laundering charges in the U.S. Unfortunately, the suspect was able to flee St. Vincent and evade arrest due to a defect in Vincentian law concerning financial crimes—the defect was remedied within a week of its discovery, though after the suspect had fled St. Vincent. (See Money Laundering section.)

St. Vincent and the Grenadines is party to the 1988 UN Drug Convention, and in 2001 became a party to the 1961 UN Single Convention, as amended by the 1971 Protocol amending the 1961 Single Convention, and the 1971 UN Convention on Psychotropic Substances. The GOSVG has signed and ratified the Inter-American Convention against Corruption. The GOSVG has signed but not yet ratified the Inter-American Convention against Firearms. The GOSVG has neither signed nor ratified the Inter-American Convention on Mutual Assistance in Criminal Matters. The GOSVG signed a maritime agreement with the U.S. in 1995, but it 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. USG law enforcement officials have received good cooperation from the GOSVG in 2001, particularly in the aftermath of the September 11 attacks on the U.S.

An advisory council on drug abuse and prevention, mandated by statute, has been largely inactive for several years. The government mental hospital provides drug detoxification services. The family life curriculum in the schools includes drug prevention education, and selected schools continue to receive the excellent police-run D.A.R.E. Program. Marion House, an enthusiastic and effective NGO, offers drug counseling in St. Vincent. Marion House also has developed and implemented an ambulatory outreach program and initiatives in prison officer training and prisoner rehabilitation.

## **French Caribbean/French Guiana**

French Guiana, Martinique, Guadeloupe, the French side of St. Martin, St. Barthelemy, and are all part of France and subject to French law, including all international conventions signed by France. With the resources of France behind them, the French Caribbean Departments and French Guiana are meeting the goals and objectives of the 1988 UN Drug Convention. The Police Judiciaire, Gendarmerie, and French Customs Service together play a major role in narcotics law enforcement in France's overseas departments, just as they do in the other parts of France. South American cocaine moves through the French Caribbean and from French Guiana primarily to Europe. Although available evidence in 2001 did not support a finding that drugs entering the U.S. from the French Caribbean had a significant effect on the U.S., 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 to be kept under observation. A small amount of cannabis is cultivated in French Guiana for local consumption.

In July 2001, nearly two metric tons of cocaine were seized off the coast of French Guiana. The drugs had been hidden on board a Venezuelan fishing boat, headed for Trinidad and Tobago, which was inspected by a French navy frigate. Customs officials, gendarmes, and the police cooperated in the operation with British special services. The U.S. provided air and sea support for the operation.

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. The assignment of a French Gendarmerie liaison officer to the U.S. Joint Interagency Task Force-East (JIATF East) at Key West, Florida has also enhanced law enforcement cooperation in the Caribbean. The USG and the GOF have been exploring a possible counternarcotics maritime agreement for the Caribbean for several years, and the USG still awaits a response from the GOF on language proposed by the USG in 1998. U.S. and French authorities have maintained good operational relations in the Caribbean and have participated in joint interdiction operations in the area.

In Martinique, the French Interministerial Drug Control Training Center (CIFAD) offers training in French, Spanish, and English to officials in the Caribbean and central and South America, in areas such as 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 the UNDCP, OAS/CICAD, and individual donor nations. U.S. Customs officers periodically teach at CIFAD. In 2001, the Caribe Venture joint operation (involving the U.S. Coast Guard and French Navy) was successful and was followed by a visit from JIATF-E to the prefet in Martinique.

France supports initiatives to increase counternarcotics assistance to the Caribbean. The European Union and its member states, the U.S., and other individual and multinational donors are coordinating their assistance programs closely through established mini-Dublin groups in the region and through bilateral and multilateral discussions. The GOF provides the salary and support costs for the Deputy Director of the Caribbean Financial Action Task Force (CFATF), who is French, and participates actively in CFATF as a cooperating and support nation (COSUN).

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# Guyana

## I. Summary

Guyana is a transshipment point for South American cocaine on its way to North America and Europe, although there is insufficient evidence that the cocaine entering the U.S. from Guyana is in an amount sufficient to have a significant effect on the U.S. Traffickers take advantage of the country's porous borders and weak law enforcement and legal infrastructure to move cocaine through Guyana. Increased arrests of drug couriers and reports of air drops suggest that Guyana's importance as a cocaine transshipment point is growing. The Government of Guyana (GOG) is committed to counternarcotics enforcement, but its efforts are constrained by limited resources. In April 2001, Guyana signed a Maritime Law Enforcement Agreement with the U.S. The GOG also procured a number of vessels for its Coast Guard. Guyanese law enforcement authorities had some success in interdicting drugs, but meager resources prevented the arrest and prosecution of major traffickers. During the year, Guyanese law enforcement officials benefited from U.S.-funded training and equipment. Guyana is a party to the 1988 UN Drug Convention, but needs to pass and implement a wide range of additional legislation to meet fully its obligations under the Convention.

## II. Status of Country

As Guyana's neighbors strengthen their drug interdiction efforts, traffickers are increasingly turning to Guyana as a safer transshipment route for South American cocaine en route to the U.S. and Europe. Guyana is not a producer of cocaine or precursor chemicals. Marijuana is cultivated on a small scale in Guyana's interior. The growing transit of narcotics through Guyana has resulted in increased domestic use of illegal narcotics. The Government of Guyana (GOG) is committed to its counternarcotics efforts, but the lack of adequate resources for GOG counternarcotics law enforcement agencies and weak legal and judicial infrastructure limit its ability to interdict drug shipments and to arrest and prosecute drug traffickers. Guyana's National Drug Strategy Master Plan (1997-2000) covered both supply and demand reduction, but inadequate resources and lack of leadership prevented the development of an updated national drug plan.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Senior GOG officials consistently expressed commitment to fighting narcotics trafficking and cooperating with the U.S. and other Caribbean countries in counternarcotics efforts. Guyana continued to participate in regional counternarcotics meetings, including an October meeting of Caribbean Community (CARICOM) states, which resulted in agreement to work together in establishing a task force on regional crime and security, and the December Caribbean High-Level Meeting on Drugs and Crime which discussed regional crime issues and reviewed Caribbean progress on the 1996 Barbados Plan of Action for Drug Control Coordination and Cooperation.

**Accomplishments.** Guyana signed a Maritime Law Enforcement Agreement with the U.S. in April 2001, which awaits Parliamentary approval before entering into force. Despite limited resources, the GOG procured a number of vessels during 2001 to deter illegal activities, including drug trafficking, in Guyana's waters.

**Law Enforcement Efforts.** The Guyana Police Force (GPF) and the Customs Anti-Narcotics Unit (CANU) continued to intercept and arrest drug smugglers en route to the U.S. and Europe at Guyana's Cheddi Jagan International Airport. The media reported 12 such arrests in the first six months of 2001. In addition, the GPF and CANU made hundreds of arrests in local communities for simple possession and possession of drugs with intent to distribute. The biggest reported seizure at the airport was five kilograms

of cocaine, while all local arrests involved relatively small amounts of marijuana and cocaine. While the GPF and CANU occasionally conducted joint counternarcotics operations, the special CANU/GPF counternarcotics task force that President Jagdeo created in 1999 was no longer operational. The failure to interdict larger amounts and arrest major traffickers was due largely to a lack of adequate resources. In addition, Guyana's antiquated laws governing evidence and criminal procedure made it very difficult to prosecute complex cases.

**Corruption.** Guyana is a party to the Inter-American Convention Against Corruption, but needs to take steps to implement its provisions. While there continued to be allegations that law enforcement officers were assisting in drug-trafficking activities, there were no arrests or prosecutions.

**Agreements and Treaties.** Guyana is a party to the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. The 1931 U.S.-U.K. extradition treaty is still in force between Guyana and the U.S. Guyana has an agreement to share narcotics intelligence with the U.K. Guyana is a member of the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD).

**Cultivation/Production.** A small amount of cannabis cultivation takes place in Guyana's interior. During 2001, the CANU and GPF Anti-Narcotics Unit conducted several manual marijuana eradication operations. There were no reports of cocaine production in Guyana.

**Drug Flow/Transit.** Cocaine flows into and out of Guyana at its borders with Brazil, Venezuela, and Suriname, and along its coastline. The Guyana Defense Force (GDF) has identified numerous airstrips in the country's mostly inaccessible interior that most likely are used to facilitate trafficking from Venezuela and Colombia. Once inside the country, narcotics are transported to Georgetown by road, waterway, or air, and then to Europe or the U.S. via commercial ship or air, either directly or through intermediate Caribbean ports. More numerous arrests of drug couriers at the international airport and reports of airdrops of cocaine near Guyana's major rivers suggest an increase in the volume of drugs transiting Guyana. GOG officials believe that GOG counternarcotics agencies interdict only a small percentage of the cocaine hydrochloride and cocaine base that transit Guyana.

**Domestic Programs (Demand Reduction).** Some marijuana is consumed domestically. Drug traffickers reportedly provide narcotics as payments to their Guyanese associates, resulting in an increase in domestic consumption of cocaine, crack cocaine, MDMA (ecstasy), and heroin. The GPF and the Ministry of Health conduct youth educational programs, but limited resources prevent the kind of full-scale effort that might reduce demand significantly. In June, the Ministry of Health, in coordination with the UNDCP, sponsored the International Day Against Drug Abuse and Illicit Trafficking which included a counternarcotics march, television and radio programs, and the distribution of counternarcotics materials to schools in Georgetown.

## IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** In 2001, the U.S. continued to expand its counternarcotics cooperation with Guyana through visits by DEA personnel and discussions between U.S. and GOG officials. The U.S. sought to strengthen the capacity of Guyana's law enforcement agencies by providing training and equipment funded by the Department of State/INL. U.S. officials continued to encourage Guyanese participation in bilateral and multilateral counternarcotics initiatives.

**Bilateral Cooperation.** In September 2001, the GOG signed an agreement with the U.S. accepting \$80,000 in State Department/INL funds for the provision of counternarcotics training and equipment. During 2001, Guyanese law enforcement officials participated in training funded by INL, including a U.S. Customs Service course on integrity/anticorruption, an FBI seminar on public corruption, and a Department of Justice workshop on dismantling drug trafficking organizations. The U.S. provided narcotics test kits, communications gear, and other equipment to Guyanese counternarcotics agencies. In June, Guyana's Coast Guard took delivery of four 44' patrol boats provided by the U.S. under the "Excess

Defense Articles” program. These boats are now conducting patrols along Guyana’s coastline. The GOG continued to provide crew for the Caribbean Support Tender, a U.S. Coast Guard vessel with a multinational crew that provides training and assistance in ship maintenance and repairs to Caribbean coast guards. With DEA assistance and funding from INL, the GPF’s narcotics branch made substantial progress toward creation of a joint intelligence coordination center that will allow it to share drug-related information with the U.S. and other countries in the region. In October, Guyanese law enforcement officials participated in and made useful contributions to a law enforcement seminar hosted by the U.S. Embassy that was attended by representatives of GOG and U.S. law enforcement agencies.

**The Road Ahead.** Continuing to bolster the GPF’s and CANU’s counternarcotics capacities with INL-funded training and equipment will be part of a broader effort to enhance the GOG’s ability to counter narcotics trafficking. Just as important will be U.S. efforts to assist the GOG to strengthen its weak legal institutions through criminal law reform and training for prosecutors. The U.S. will continue to encourage the GOG to participate in bilateral and multilateral counternarcotics fora and operations, and urge Guyana to fulfill its commitments under the 1996 Barbados Plan of Action for Drug Control Coordination and Cooperation in the Caribbean. On the bilateral side, the U.S. will encourage Guyana to take full advantage of shiprider provisions once the bilateral Maritime Law Enforcement Agreement is in force.

# Haiti

## I. Summary

Haiti is a major transshipment point for drugs, primarily cocaine, moving from South America to the United States. Haiti's weakened democratic institutions, fledgling police force, and eroded infrastructure provide South American-based narcotraffickers with a path of minimal resistance. The ongoing political impasse resulting from the flawed 2000 elections further weakened the government and economy. There are allegations that high-ranking officials in the government, judiciary, and police are involved in or tolerate trafficking. Haiti is a party to the 1988 UN Drug Convention.

The Government of Haiti (GOH) cooperated on a limited, tactical level with the United States on drug control in the past year. The DEA reported very good cooperation during a September regional counternarcotics operation, "Operation Hurricane," during which the Haitian National Police (HNP) worked closely with the DEA and Dominican Republic counternarcotics force. HNP Director General Lucien met his Dominican counterpart to conclude a working agreement between the two institutions. Haiti's Justice Minister Lissade acted quickly in a few cases to extradite non-Haitian traffickers when requested and also established a Financial Investigations Unit to combat money laundering. Although the GOH did not take the final steps to put the pending bilateral maritime counternarcotics agreement into force, the government permitted the U.S. Coast Guard to operate against traffickers in Haitian waters.

The HNP did not name a permanent director to either the special narcotics squad (BLTS) or its parent organization, the Judicial Police (DPCJ). There were no arrests of major traffickers in 2001. Despite a U.S. offer, the GOH did not sign a Letter of Agreement for Narcotics Control and Law Enforcement (LOA) with the United States under which the U.S. would have provided needed training and support.

The GOH adopted and published a money laundering law and The Law for the Control and Repression of Illicit Drug Trafficking in 2001. However, trials and convictions were rare. The Parliament did not appoint a National Drug Coordinator, as required by the Drug Control Strategy Law. The GOH joined the Caribbean Financial Action Task Force (CFATF) in October 2001.

## II. Status of Country

A political impasse stemming from flawed parliamentary elections in May 2000 and a deteriorating economy tempered the triumphant electoral victory and return to office of President Aristide in 2001. The international community suspended direct aid to the GOH as a result of the government's failure to correct electoral deficiencies. The stalled negotiations and lack of resources were setbacks to institution building, economic reform, development, and law enforcement. Political instability, economic problems, and internal security remained the major concerns of the GOH; however, it continued to cite combating drug trafficking as one of its goals. Aristide reconfirmed with President Bush an eight-point commitment to President Clinton which included cooperation in combating drug trafficking as one of the major goals.

As 2001 ended, Haiti's economy stagnated. Electricity rates rose but supply remained uncertain; imports of goods were down; domestic production fell, further reducing the number of jobs available; and the gourde-dollar gap widened. Haitians expressed their discontent through graffiti, demonstrations, and calls for general strikes. School attendance remained low, especially among the poor who could not afford the fees, and professionals and others with job skills left Haiti for Canada and the United States. As a result, drug trafficking was one of the few lucrative businesses in Haiti and represented a source of income for many Haitians. In some areas of the country, Haiti's poor regard cocaine as "manna from heaven," and sometimes use violence to get to it.

The HNP suffered attrition and recruitment problems, but still employed between 2500 and 3500 officers. However, there was little money for training, equipment, vehicle maintenance, fuel, and other necessities. Neither the BLTS nor the Haitian Coast Guard received sufficient support from the government.

With no South Coast patrol and few coastal patrols at all, it was relatively easy to bring cocaine into Haiti from South America. Lack of law enforcement aircraft permitted small planes to fly unimpeded into Haitian air space and either land or drop drugs for recovery. Difficult roads made effective police reaction nearly impossible. Official corruption, lack of a strong, independent judiciary, and an increasingly desperate population created a nearly risk-free environment for illegal traffickers.

### III. Country Actions Against Drugs in 2001

The Parliament approved and President Aristide signed two counternarcotics related laws in 2001, an anti-money laundering law and a national drug control strategy law. President Aristide did not sign the bilateral maritime law enforcement agreement proposed by the U.S., although the Parliament ratified it in December 2000. Neither has he agreed to sign a Letter of Agreement with the United States. Justice Minister Lissade formed a Financial Investigations Unit and sought assistance and training from several sources. At Minister Lissade's urging, the GOH began working closely with CARICOM and joined the CFATF. The GOH also has demonstrated a willingness to cooperate with the Dominican Republic.

**Corruption.** Corruption remained a major problem and traffickers enjoyed the protection of some legislators, senior GOH officials, and police.

Corruption throughout the GOH remained a major impediment to effective law enforcement in Haiti. HNP Inspector General Jean-Baptiste announced a crackdown on corruption within the police force, but ordered few serious, independent investigations.

Justice Minister Lissade made determined efforts to curb corruption in the Judiciary, but was hampered by political interference to halt arrests, request arrests, and to release suspects. During "Operation Hurricane," the regional counternarcotics operation, arrests of boat owners in Cap Haitien were met with public demonstrations led by a representative to the House of Deputies.

There was credible evidence to suggest that members of the HNP, including the Palace Guard, were involved in the drug trade. Few were investigated or apprehended. There also were allegations that some GOH leaders had ties to and received money from known drug traffickers.

In the Justice, Customs and Port Authority sectors corruption remained a driving force. Judges' meager salaries predisposed them to bribery. Similarly, poorly paid Customs agents profited from unrestrained, widespread smuggling in Haiti's ports. In 2001, the DEA Country Office estimated that two thirds of Haiti's imports arrive illegally without the knowledge of or with the collusion of Haitian Customs.

**Extradition/Expulsion.** The Haitian Constitution of 1987 forbids extradition of Haitian nationals. At the request of the United States, the Justice Minister ordered the expulsion of two accused non-Haitian traffickers to the United States. The USG made no other requests.

**Precursor Chemical Control.** Haiti has no precursor chemical control law. While suspect activity in precursor chemicals exists, no significant trade was detected.

**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 NGO, remains the only establishment with treatment programs for substance abuse. All anecdotal reports indicate that local consumption continued to increase as traffickers increasingly paid off their personnel in product. The Minister of Justice worked with the UNDCP to develop drug education and prevention programs.

**Law Enforcement Efforts.** Haiti, as a principal transit zone for narcotics trafficked from South to North America, focuses on the prevention of transport and distribution. However, the GOH lacks the

experience, expertise, resources, and interagency coordination to launch a major offensive against traffickers. Its counternarcotics laws are new and untested and, despite public statements to the contrary, the GOH has not given counternarcotics priority attention.

Concern over the destructive potential of trafficking through Haiti is on the rise within the GOH and is expressed, at times, by the private sector. Counternarcotics efforts, however, are less of a priority than the more pressing matters of maintaining public order and ensuring the personal safety of citizens. As a result, most related law enforcement accomplishments are those for which USG programs have provided direct guidance and support. The absence of this support has impeded the development of a professional BLTS despite assistance received from the Government of France and the EU.

Decreased assistance and resources presented serious problems for the HNP's counternarcotics effort. Despite promises to increase the BLTS, the number of officers declined from 49 to 40. The Haitian Coast Guard, at 61 people, lacked repair parts for its boats and funds for operational support.

Changes in the HNP leadership following the February 2001 inauguration of President Aristide led to changes at lower levels that also affected the HNP's ability to deal with the drug problem. Mario Andresol was removed as Chief of the Judicial Police (DPCJ), the HNP arm responsible for counternarcotics operations. No permanent Chief of the DPCJ was appointed by the close of 2001.

During 2001, the HNP seized 446 kilograms of cocaine, compared with 238 in 2000. Air drops, which had stopped during the first months of the year, began again; some occurred near Port-au-Prince. Numerous "go-fast" boats from Colombia and Venezuela carried cocaine to an undefended Southern coast. The HNP eradicated one marijuana field in Gonaives, one in Pont Sonde, and three in Belle Anse. The Haitian Customs Force made two airport seizures totaling 10 kilograms of cocaine.

The HNP made 48 cases and claimed 68 drug-related arrests. The DEA verified 36 arrests in 2001. Of these 36, the DEA has verified that 20 arrestees were Haitian, two French, five U.S., three Canadian, and six Colombian nationals. None were adjudicated. The Judicial Police reported seizures of U.S. \$136,000, 55,000 Haitian gourdes, and 850 Colombian pesos.

In September 2001, the HNP participated in "Operation Hurricane," a two-week regional counternarcotics operation. Haitian police worked with Dominican counterparts and the DEA in the operation, described by DEA as "successful."

**Agreements and Treaties.** Haiti is a party to the 1961 UN Single Convention, its 1972 protocol, and the 1988 UN Drug Convention. The Parliament has not ratified the 1971 Vienna Convention on Psychotropic Substances.

In late 1999 in Paraguay, Haiti signed an affirmation of the 1998 Santiago Declaration in support of a CICAD-designed mechanism for multilateral evaluation (MEM) of participating countries' counternarcotics efforts.

Haiti and the United States signed a six-part comprehensive maritime counternarcotics interdiction agreement in October of 1997. The agreement was ratified by the Parliament, but President Aristide did not sign it. The GOH continued to honor the terms of the agreement as if it were enacted law.

A 1904 bilateral extradition treaty between the United States and Haiti remained in force, but the 1987 Haitian constitution prohibited the extradition of Haitian nationals. In its FY 1999 Letter of Agreement with the United States, the GOH, in return for counternarcotics assistance, 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. In 2001, two traffickers were expelled.

The GOH has taken no action on an OAS Mutual Legal Assistance Treaty (MLAT), under review by the Haitian Foreign Ministry since 1997.

**Drug Flow/Transit.** During 2001, Colombian traffickers shifted back to their previous pattern of launching "go-fast" boats toward Haiti's unprotected south coast.



Air drops also resumed. At least five planes were confirmed, including some near Port-au-Prince. Haiti's deteriorated highway system and mountainous terrain provided nearly inaccessible, undetectable drop and landing sites. While USG detection and monitoring efforts were able to track suspicious aircraft bound for Haiti, GOH law enforcement teams were usually unable to respond.

Some of the cocaine entering Haiti was transferred overland via the porous 275-kilometer border to the Dominican Republic and transported either directly to the U.S. mainland or via small vessels to Puerto Rico. Puerto Rico-bound cocaine was later shipped via container cargo vessels or commercial airliners to the U.S. or Europe.

## IV U.S. Policy Initiatives and Programs

The U.S. plan for combating illegal drugs in Haiti was to reduce the amount of narcotics transiting Haiti while strengthening the GOH institutions that oppose narcotics trafficking. This approach addressed both law enforcement entities and the justice sector. The U.S. strategy called for efforts to foster Haitian interagency cooperation, Haitian cooperation with other countries, and the willingness and ability to fight corruption in government. The United States had no bilateral counternarcotics program with Haiti in 2001. The United States offered to sign an LOA with the GOH, but by the end of 2001, the offer had not been accepted. Despite the lack of a formal counternarcotics agreement between the U.S. and Haiti, the DEA maintained a permanent staff of seven agents in Port-au-Prince.

**The Road Ahead.** Stemming the flow of illegal narcotics through Haiti remains a cornerstone of U.S. policy. Key objectives to stemming the illegal flow are improving the effectiveness of the GOH law enforcement and judicial institutions that address illegal drugs and pursuing narcotics traffickers operating in Haiti in order to arrest, try, and convict them in either Haiti or the United States. Accomplishing these objectives involves training and equipping the HNP to develop an effective narcotics interdiction capability while simultaneously working with it on interdiction operations and counternarcotics investigations. It also entails working to improve the skills of prosecutors and judges and the legal system in which they work. The United States must continue to urge interagency cooperation among Haitian Customs, Immigration, and Judiciary. The lack of a U.S.-Haiti bilateral program, however, has stalled achievement of these objectives. The United States will continue to offer terms for a bilateral counternarcotics agreement that would provide the assistance and training needed for an effective counternarcotics effort.

# 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 2001, the Government of Jamaica (GOJ) continued to make progress toward meeting the goals and objectives of the 1988 UN Drug Convention.

During 2001, the GOJ took several steps to strengthen its counternarcotics law enforcement and interdiction capability. The GOJ undertook to establish a special investigative unit to target significant drug traffickers, increased the staff of the Jamaica Constabulary Force Narcotics Division, and provided resources to enhance security at its ports. The GOJ continued its marijuana eradication program, although the amount eradicated fell short of the goal the U.S. and GOJ had set for 2001. Law enforcement operations resulted in a number of large cocaine and marijuana seizures during the year. The GOJ brought into force an Anti-Corruption Act and ratified the Inter-American Convention Against Corruption. In addition, three drug courts were established in 2001. The U.S. and GOJ signed a reciprocal agreement that provides for the sharing of assets derived from crime, and the GOJ's Fugitive Apprehension Team, with the assistance of U.S. Marshals, worked vigorously to apprehend fugitives for eventual extradition to the U.S.

Nevertheless, the GOJ needs to undertake more intensive law enforcement action to disrupt the trafficking of large amounts of cocaine in Jamaican territory and territorial waters. Such actions include arresting and prosecuting significant drug traffickers operating in Jamaica, dismantling groups that conduct the drug trade, and increasing drug seizures and eradication. Although Jamaican forces participated in combined operations under the Jamaica-U.S. bilateral maritime agreement during the year, the GOJ could take better advantage of the agreement in order to reduce the drug flow. U.S. agencies note that counternarcotics cooperation with their GOJ counterparts is generally good but could be improved. The U.S. will continue to provide equipment, technical assistance, and training to assist the GOJ to strengthen its counternarcotics capabilities.

The GOJ has in place a National Drug Control Strategy that covers both supply and demand reduction, and is preparing its third National Master Drug Prevention and Control Plan (2002-2007). Jamaica is a party to the 1988 UN Drug Convention.

## II. Status of Country

Jamaica is a major transit country for cocaine destined for the U.S. and other markets, and the leading producer and exporter of marijuana in the Caribbean. Jamaica is not a source of precursor or essential chemicals used in the production of illicit narcotics, but there is concern over the vulnerability of Jamaican ports to illegal diversion of such chemicals. Illicitly obtained isopropyl alcohol has been used to extract hashish oil. Jamaica is not a significant regional financial center, tax haven, or offshore banking center, but some money laundering does occur, most likely through the purchase of assets, such as houses or cars, rather than financial instruments.

## III. Country Actions Against Drugs in 2001

Jamaica's counternarcotics efforts have taken place against a backdrop of severe resource constraints. From 1996-1999, Jamaica experienced negative economic growth. In 2000 and 2001, Jamaica enjoyed only marginal GNP expansion.

Policy Initiatives. GOJ officials publicly state the government's commitment to combating illegal drugs. The newly appointed (November 2001) Minister of National Security cited narcotics trafficking by

organized crime as the greatest challenge to Jamaica's security and, in mid-January 2002, outlined in a nation-wide address a new anticrime plan that includes initiatives to counter drug trafficking and money laundering.

The GOJ operates under severe resource constraints, however, with over 60 percent of its national budget going for debt servicing. Nevertheless, the GOJ spent substantial amounts in 2001 to maintain an interdiction capability consisting of helicopters and patrol vessels, which contributed to a number of successful drug interdictions throughout the year.

In April 2000, a Precursor Chemicals Act, based on the recommendations of the 1988 UN Convention and the OAS/CICAD model regulations, entered into force. Implementing regulations have been drafted and submitted to the legal staff of the Ministry of Health for study and approval. In the course of preparing the implementing regulations, certain weaknesses in the Act were identified, which the GOJ is seeking to rectify by drafting amendments to the Act. In early 2001, the draft Interception of Communications (wiretap) Act, which vests the authority to intercept telecommunications with the courts rather than the Prime Minister, was referred to a Joint Select Committee of Parliament. The bill was passed by the lower house of Parliament in January 2002, and currently awaits Senate action.

Jamaica has a National Anti-Drug Plan (1997-2002) covering supply and demand reduction. The plan, however, does not contain goals and objectives or measures of effectiveness. The National Council on Drug Abuse (NCDA), with assistance from OAS/CICAD, is in the process of preparing a new master drug prevention and control plan (2002-2007).

**Accomplishments.** The GOJ took steps in 2001 to strengthen port security in an effort to deter the continued use of Jamaica's air and seaports for drug trafficking. The GOJ has implemented most of the recommendations from the 1997 Port Security Assessment, including establishment of a challenge policy, repair of x-ray equipment, installation of closed-circuit TV systems, and implementation of a single ID policy at the airport; the only major outstanding recommendation remains implementation of a single ID card for seaport access. In November, Prime Minister Patterson announced steps the GOJ is taking to improve port security, including the installation of x-ray and camera equipment. The GOJ is also entertaining bids for complete container inspection services.

The Contraband Enforcement Team (CET), presently staffed with 21 Customs officers and two Jamaica Constabulary Force (JCF) personnel, is being expanded to approximately 50 personnel in accordance with the GOJ's Customs Modernization Plan. The GOJ is currently recruiting for the positions of Director and Manager, following which it will begin to recruit additional front line personnel. CET personnel continue to be stationed at the ports on a 24-hour basis, as are JCF Narcotics Division personnel at the international airports—a move that has greatly increased arrests of drug couriers. The GOJ also continued to support the permanent presence of JCF personnel at two small domestic airports to deter the landing of drug-smuggling aircraft, although the police lack telephones and vehicles. Reports of suspected air trafficking through these airports declined markedly following the establishment of the JCF posts in 2000, but increased in the last half of 2001, presumably as traffickers became aware of the limited reaction capabilities of the JCF officers on site.

Following passage of legislation in 2000 calling for the establishment of drug courts, three such courts began sitting in 2001. In November, the Governor-General signed the Justice Protection Bill, which codifies the witness protection program and expands it to include jurors, lawyers, law enforcement, and judicial officials.

The GOJ continued to fund the operating expenses for the Caribbean Regional Drug Law Enforcement Training Center (REDTRAC). REDTRAC, built with U.S. funds under a UNDCP project, has provided specialized training for thousands of regional law enforcement officers since its inception in 1996. In 2001, the U.S. provided funding and instructors for a number of courses at REDTRAC.

**Law Enforcement Efforts.** Both the Jamaica Defense Force (JDF) Coast Guard and the Jamaica Constabulary Force (JCF) assign a high priority to counternarcotics missions. While the JCF in general

suffers from institutional problems recognized by the JCF leadership, the JCF Narcotics Division is a competent and respected unit. The Narcotics Division is currently undergoing an extensive division-wide restructuring and expansion which, when completed, will double its staffing from 106 to 212. The JCF is also recruiting candidates for a special investigative unit to target significant drug traffickers.

Jamaican law enforcement authorities participated with U.S., Canadian, and Bahamian law enforcement authorities in an 18-month investigation that culminated in the February 2001 arrest in The Bahamas of major drug trafficker Samuel “Ninety” Knowles and the dismantling of his trafficking ring, which is estimated to have moved at least one metric ton of cocaine per month through the Caribbean.

In 2001, the GOJ seized 2,947 kilograms of cocaine, including 977 kilograms of cocaine, reportedly the largest drug seizure in Jamaica’s history, in a joint JCF/JDF operation. During 2001, the GOJ eradicated 332 hectares of marijuana, short of the goal of 1,200 hectares contained in the FY 2000 Letter of Agreement between Jamaica and the U.S., under which the U.S. is providing counternarcotics assistance to Jamaica. The shortfall resulted from the continued diversion of JDF elements from marijuana eradication to emergency prison guard service following a strike by prison guards, leaving all eradication efforts under the JCF. In addition to the cannabis manually eradicated by JCF personnel, GOJ authorities in 2001 seized and destroyed 68.5 metric tons of marijuana (a considerable increase over 2000), 8 kilograms of hashish, and 211 kilograms of hashish oil. Several large marijuana seizures resulted from detections by the CET at Jamaica’s seaports. In 2001, the GOJ arrested 6,443 drug offenders, including 420 foreigners.

**Corruption.** Corruption continues to undermine law enforcement and judicial efforts against drug-related crime in Jamaica. On May 1, 2001, the GOJ brought into force the Corruption Prevention Act and a bill strengthening the Parliament (Integrity of Members) Act. The Corruption Prevention Act defines acts of corruption by public servants, mandates asset declarations, and establishes a commission to investigate corruption charges. Implementing regulations, however, have not yet been drafted. In March 2001, the GOJ ratified the Inter-American Convention Against Corruption and, in 2001, signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention.

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 a policy of investigating credible reports of public corruption and prosecutes individuals who by reliable evidence are linked to drug-related activity. The GOJ has not prosecuted any senior Jamaican government official for facilitating the illicit production or distribution of such substances, or the laundering of proceeds from illegal drug transactions. During the year, a number of JCF and JDF personnel were arrested on drug-related charges, and there are currently a number of ongoing investigations into alleged drug-related corruption involving police personnel. Police officers are often transferred if there is suspicion but no proof of involvement in drug-related activity. In October, the entire staff of a police station was transferred following allegations concerning the under-reporting of the amount of cocaine seized in a drug operation. The JCF conducts drug testing of recruits at their initial physical exam, but does not have a policy of random drug testing. The 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 Mutual Legal Assistance Treaty among the Commonwealth States. A U.S.-Jamaica maritime counternarcotics cooperation agreement came into force in February 1998. Jamaica is a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Jamaica signed the UN Convention against Transnational Organized Crime and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms on September 26, 2001.

During 2001, the GOJ extradited ten fugitives and deported five to the U.S. Ten more are awaiting extradition. The Jamaican Fugitive Apprehension Team is actively working on over 200 cases in close cooperation with the U.S. Marshals Service and, in 2001, closed 69 cases and made 23 arrests. Jamaican

authorities are receptive to and cooperative with U.S. requests for extradition, and are working with U.S. authorities to accelerate the extradition process. Unfortunately, however, the appeals process available to criminal defendants, combined with an overburdened court system, means that contested extradition requests can take four to five years to litigate fully.

**Cultivation/Production.** Jamaica is the largest Caribbean producer and exporter 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. Past successes in eradication now make marijuana fields more difficult to locate without aerial surveillance, for which the GOJ has requested USG assistance. As a matter of policy, Jamaica does not use herbicides to eradicate cannabis. Manual cutting is the method used.

**Drug Flow/Transit.** Jamaica continues to be the leading transshipment point in the Caribbean for South American cocaine en route to the U.S. A senior Jamaican official has stated the GOJ estimates that 70-100 tons of cocaine are transshipped through Jamaica each year. Cocaine arrives in Jamaica primarily from Colombia's north coast by "go-fast" boats, although it is also concealed in commercial shipments. Jamaica-based traffickers use several methods to transport cocaine and marijuana on to the U.S. and other markets: "go-fast" boats; concealment in commercial shipments; parasitic attachments to the hulls of merchant vessels; and couriers who board airlines or cruise ships with ingested or concealed drugs. The U.S. Customs Service reports that Jamaica is the source of the largest number of passengers arrested with drugs at U.S. airports. Small groups of Jamaicans affiliated with local organized crime organizations conducted most of the drug trade in Jamaica in the past. Current intelligence suggests that Colombian traffickers are building closer links with local traffickers. A senior GOJ official has stated that there is some evidence that drug cartels have begun to establish command and control centers in Jamaica.

**Domestic Programs (Demand Reduction).** Jamaica has several active demand reduction programs in place. Two of the most visible projects are those of the National Council on Drug Abuse (NCDA) and the NGO Addiction Alert. The UNDCP conducts some activities in Jamaica and works directly with the GOJ and NGOs to improve demand reduction efforts. The UNDCP has funded an integrated demand reduction program managed by the NCDA. The EU is funding a three-year demand reduction project that began in December 1999. Addiction Alert receives U.S. funding for its adolescent drug prevention program and, in 2001, the U.S. funded an NCDA program for 5-14-year-old children.

Consumption of marijuana is illegal in Jamaica, and the GOJ has consistently rejected calls for its legalization. In August 2001, the National Commission on Ganja, an independent panel established by Prime Minister Patterson at the behest of Parliament, issued its report recommending decriminalization for adults who use small quantities of marijuana for private, personal use and as a sacrament for religious purposes. The report also recommended an intensive demand reduction program aimed at youth, intensified interdiction of large-scale ganja cultivation and trafficking of all illegal drugs, and diplomatic efforts to explain Jamaica's interpretation of its UN obligations and urge countries to re-examine the status of cannabis. In February 2002, the Jamaican Cabinet forwarded the report to the Parliament for consideration.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** U.S. law enforcement agencies note that cooperation with GOJ counterparts is generally good but could be significantly improved.

The JDF Coast Guard (JDFCG) continued to participate conservatively in U.S.-Jamaican maritime interdiction operations under the bilateral maritime counternarcotics agreement, but it could be more aggressive. Jamaican maritime assets, however, are old, slow, often under repair, and are unable to intercept "go-fast" boats transporting drugs. To augment the JDFCG's assets, the U.S. in the past provided two 82-foot cutters for coastal patrol and funded the refurbishing of six boats, including two "go-fast" vessels. In October 2001, the GOJ and the U.S. signed a Letter of Agreement (LOA) that

redirects available funds from previous LOAs to a new project plan under which the U.S. is procuring three “go-fast” interceptor boats, ion scan machines for use at the international airports, and training equipment for the police academy. The U.S. is also funding an advisor for the National Firearms/Drugs Intelligence Center.

The U.S. continues to support the highly effective Jamaican Fugitive Apprehension Team with guidance from U.S. Marshals, specialized training, equipment, and operational support, including a new four-wheel drive vehicle provided in 2001. In 2001, the U.S. funded participation by Jamaican police, immigration, customs, defense force, and prosecutor personnel in several in-country and regional training courses.

In March 2001, the GOJ signed a Memorandum of Cooperation with the U.S. to develop a long-range plan for a safe, secure and efficient marine transportation system (MTS) which is corruption-free. Once in full effect, the MTS will deter drug trafficking through Jamaican ports.

In August 2001, the GOJ and U.S. signed a reciprocal agreement that facilitates the sharing of forfeited assets where law enforcement cooperation has made possible or substantially facilitated a forfeiture of proceeds from criminal activity.

**The Road Ahead.** While the GOJ has taken steps to protect itself against drug trafficking and other types of organized crime, the substantial increase in drug trafficking through Jamaica indicates the need for the GOJ to intensify and focus its law enforcement efforts and enhance its international cooperation. The GOJ needs to enact and implement modern anticrime legislation, such as court-ordered wiretaps, undercover operations, controlled deliveries, and use of ion scan technology in court proceedings, that will permit Jamaican law enforcement to investigate, arrest, and successfully prosecute drug traffickers and other criminals. The GOJ also needs to revise its drug legislation to include MDMA (ecstasy) and other new drugs. The GOJ should take steps to strengthen its immigration controls to inhibit the free movement of drug traffickers and other criminals.

For its part, the U.S. will continue to provide assistance and training to strengthen Jamaica’s maritime interdiction efforts. The U.S. intends to provide the JDFCG with three new “go-fast” interceptor boats to aid in the interdiction program in 2002. These new boats, combined with increased JDFCG cooperation under the maritime agreement, should result in a greater number of seizures and arrests. The USG-provided ion scan machines will serve to strengthen airport security, while the actions the GOJ has committed to undertake will enhance security at Jamaica’s sea ports. The U.S. will also provide training and equipment for the expanded CET as new staff are brought on board.

Implementation of the Anti-Corruption Act and the Inter-American Convention Against Corruption will strengthen the GOJ’s ability to counter corruption. The U.S. is prepared to provide technical assistance toward this end if the GOJ desires help. The U.S. will continue to provide technical assistance and training to assist the GOJ to improve its drug interdiction, marijuana eradication and demand reduction efforts. The U.S. will also work closely with the police and public prosecutors to enhance the GOJ’s ability to identify, investigate, successfully prosecute, and seize the assets of significant drug traffickers.

# Jamaica Statistics

(1993–2001)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Cannabis</b>									
Potential Harvest (ha)	unk	unk	unk	unk	317	527	305	308	744
Eradication (ha)	332	517	894	705	743	473	695	692	456
Cultivation (ha)	unk	unk	unk	unk	1,060	1,000	1,000	1,000	1,200
Potential Yield <sup>1</sup> (mt)	unk	unk	unk	unk	214	356	206	208	502
<b>Seizures<sup>2</sup></b>									
Cocaine (mt)	2.947	1.625	4.601	1.160	0.414	0.236	0.571	0.179	0.160
Cannabis (mt)	68.46	55.87	56.22	35.91	24.00	52.99	37.20	46.00	75.00
Hashish Oil (kg)	211.00	578.00	371.49	144.05	383.00	263.41	278.00	47.00	235.00
Heroin (mt)	.001	0.019	0.000	0.000	0.001	0.001	—	0.001	0.001
<b>Arrests</b>									
Nationals	6,023	8,238	6,385	7,093	3,143	2,996	3,325	788	899
Foreigners	420	421			221	267	380	98	517
<b>Total Arrests</b>	<b>6,443</b>	<b>8,659</b>	<b>6,385</b>	<b>7,093</b>	<b>3,364</b>	<b>3,263</b>	<b>3,705</b>	<b>886</b>	<b>1,416</b>

<sup>1</sup> Yield is based on an estimate of 675 kilograms per hectare.

<sup>2</sup> Data derived from official information supplied by the Narcotics Division, Jamaica Constabulary Force, except for hectares of marijuana cultivation, which is based on joint estimates from the JCF, JDF, and DEA.

# Suriname

## I. Summary

Suriname is a transshipment point for South American cocaine en route to Europe and the United States, and increasingly for European-produced MDMA (ecstasy) destined for the U.S. market. Evidence is insufficient, however, to establish that the quantity of drugs transiting Suriname has a significant effect on the U.S. Drugs transit Suriname via sea, river, and air routes. The lack of infrastructure in the largely unmonitored interior, which comprises 90 percent of the country, and weak border controls are the major obstacles in the detection of drug shipments into and out of the country. Government of Suriname (GOS) law enforcement officials have achieved some successes in interdicting drugs. A high level of cooperation exists between U.S. agencies and GOS law enforcement officials. Domestic drug use in Suriname continues to increase. The principal obstacles to effective counternarcotics law enforcement are Suriname's relative geographical isolation (which makes narcotics detection and interdiction efforts difficult), inadequate legislation, complicated and time-consuming bureaucratic requirements, lack of law enforcement resources, and drug-related corruption. Suriname is a party to the 1988 UN Drug Convention but has yet to implement legislation bringing it into complete conformity with the Convention.

## II. Status of Country

Suriname is a transit point for South American cocaine en route to Europe and the United States. Ecstasy originating in Europe is also transshipped through Suriname to the U.S. However, evidence available in 2001 did not support a finding that drugs entering the U.S. from Suriname were in an amount sufficient to have a significant effect on the U.S. Much of the cocaine entering Suriname does so via small airstrips located throughout the dense jungle, many of which are also used for arms-for-drugs swaps. Police in the past have received reports that precursor chemicals are stored in Suriname and may have been used in clandestine laboratories. The lack of resources for counternarcotics efforts, inadequate legislation, complicated and time-consuming bureaucratic requirements, and drug-related corruption inhibit the Government of Suriname's (GOS) ability to interdict drugs, and to identify, apprehend, and prosecute drug traffickers. Moreover, Suriname's sparsely populated jungle terrain, coupled with the country's relative geographical isolation, makes narcotics detection and interdiction efforts difficult.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Venetiaan administration, which took office in August 2000, strongly opposes drug trafficking. GOS officials have expressed concern about the extent of drug trafficking through Suriname and increasing domestic drug abuse. The narcotics brigade of the Korps Politie Suriname (KPS), Suriname's police force, benefits from a high-visibility level within the police department because drug interdiction is a high-profile issue within Suriname and internationally. The Customs Service, however, receives very few resources and almost no formal training, despite its active and successful role in drug interdiction. GOS officials continued to participate in regional counternarcotics efforts. In 2001, Surinamese law enforcement officials took part in a regional counternarcotics operation. Suriname has a Strategic Drugs Master Plan (2000-2005) that covers both supply and demand reduction, but needs to take steps to fully implement the plan.

**Law Enforcement Efforts.** GOS law enforcement and Customs officials tend to focus on individual smugglers and couriers ("mules"), as opposed to major traffickers and their organizations, and rely mainly on profiling and tips from informants to apprehend small-time smugglers at the major ports of entry/exit. In 2001, the KPS Narcotics Brigade, in conjunction with the DEA, seized 2,274 kilograms of cocaine, 5.4



kilograms of marijuana, and 211 grams of hashish; GOS Customs officials, working mainly at the international airport, intercepted 236 kilograms of cocaine, more than twice the amount seized in 2000, and small amounts of marijuana and hashish. In DEA-sponsored operations, approximately 12 hectares of cannabis plants were manually eradicated in 2001. Although no ecstasy was seized in Suriname in 2001, in June, U.S. officials in Miami broke up a Surinamese drug trafficking ring that was responsible for smuggling over one million ecstasy pills into the U.S. earlier in 2001.

Precise figures for the number of drugs-for-guns swaps that took place in 2001 are not available, but Surinamese police officers believe there was an increase from 2000. In three operations in 2001, GOS officials seized large quantities of cocaine (a combined total of approximately 1,900 kilograms) being transported through Suriname via small airplanes, and arrested several third-country nationals. On one occasion, the smugglers burned their airplane and attempted to escape; in another, large quantities of cocaine were dropped from a passing airplane; and in a third, authorities were able to seize both an airplane and cocaine.

**Corruption.** Public corruption, although by no means universal, is a serious problem in Suriname. Reports of money laundering, drug trafficking, and associated criminal activity involving current and former government and military officials continue unabated, if generally unproved through legal processes. Former strongman Desi Bouterse won election to the National Assembly in 2000 despite his conviction in the Netherlands in 1999 for narcotics trafficking. Bouterse's son, Dino, is repeatedly mentioned as being involved in narcotics transshipping and drugs-for-guns deals. The Venetiaan government has pledged to put anticorruption efforts high on its priority list and, early in its administration, established an anticorruption commission. Suriname signed, but has not ratified, the Inter-American Convention Against Corruption.

**Agreements and Treaties.** Suriname is a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. It is also a party to the 1988 UN Drug Convention but has not yet implemented legislation bringing it into compliance with the Convention. Suriname currently has legislation that conforms to the drug interdiction portion of the Convention. The GOS signed and ratified the OAS Convention on Mutual Legal Assistance in Criminal Matters. A bilateral maritime counternarcotics enforcement agreement with the U.S. entered into force in August 1999. The 1904 U.S.-Netherlands Extradition Treaty applies to Suriname, but Suriname prohibits the extradition of its nationals. Suriname and the Netherlands entered into a mutual legal assistance agreement in 1976 that has been used to share information on narcotics issues. Suriname is a member of the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD).

**Cultivation/Production.** Cannabis is grown and used in Suriname's tribal-influenced interior. However, there is neither specific data on the number of hectares under cultivation nor evidence that cannabis is exported in significant quantities.

**Drug Flow/Transit.** Much of the cocaine entering Suriname does so via small airstrips located throughout the dense jungle interior where a lack of infrastructure, personnel, and equipment make detection and interdiction nearly impossible. Many of these airstrips are also used for arms-for-drugs swaps. In the past year, several airstrips were identified, but there are no reports of any being eliminated. The reports of airdrops of cocaine to fields and waterways appeared to increase in 2001. According to a senior GOS law enforcement official, large quantities of cocaine are transshipped through Suriname to Brazil, among other South American countries. Cocaine destined for U.S. and European markets exits Suriname most often by couriers on commercial air flights and in commercial sea cargo through Paramaribo's harbor. In 2001, a shift in the amount and manner in which couriers transported cocaine to the U.S. and Europe became evident: rather than ingesting drug-filled balloons, couriers increasingly carried larger quantities of cocaine on their bodies. European-produced ecstasy is transported via the thrice-weekly flights from the Netherlands to Suriname; drug couriers then transport the drugs to the U.S. on flights to Miami.

**Domestic Programs/Demand Reduction.** Suriname's domestic drug problem continues to grow. Suriname has a National Demand Reduction Strategy, but needs to do more to implement it. The National Anti-Drug Council (NADR), police and non-governmental organizations (NGOs) emphasize drug education and rehabilitation in response to growing domestic drug consumption. However, the NADR is hindered by political rivalries and members who do not have enough time to focus properly on the issues. A National Drugs Information System, supported by the police and the Ministry of Health, was created in August for the collection and distribution of data with the objective of positively influencing policy formation, but it has yet to begin its work. Drug treatment clinics, of which there are few, have no detailed treatment plans for addicts and often rely on untrained volunteers for staffing. The NGO "Kick the Habit," founded in 2000 with funding from several international and local sources, has had some success in working to promote demand reduction.

#### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** A high level of cooperation exists between U.S. and GOS law enforcement officials. The U.S. continued to provide training, technical assistance, and material support to elements of Suriname's police and military to promote greater bilateral cooperation. Through several long-term temporary duty assignments, DEA provided training and logistical support to the narcotics unit of the police force. Other GOS drug enforcement agencies worked closely with U.S. agencies throughout the year. In January 2001, at the request of the GOS, a U.S. Coast Guard law enforcement detachment traveled to Suriname to search a vessel for narcotics. The U.S. and GOS signed a Letter of Agreement (LOA) in 2000, under which the U.S. is providing counternarcotics assistance to the GOS. This LOA was amended in September 2001 to provide additional funds. During the year, GOS officials benefited from regional training funded by the Department of State/INL. The GOS cooperated throughout the year with a U.S. investigation of a Surinamese ecstasy trafficking organization that culminated in a number of arrests in the U.S. In 2001, the GOS provided two Surinamese seamen to serve aboard the Caribbean Support Tender, a U.S. Coast Guard vessel with a multinational crew that provides training and assistance in ship maintenance and repairs to Caribbean coast guards. In July 2001, Suriname became the coordinator of the International Drugs Enforcement Conference.

**The Road Ahead.** The U.S. will continue to encourage the GOS to enact laws to implement 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 U.S. will seek to enhance, through a variety of avenues, the close cooperation between the DEA, other U.S. agencies, and their Surinamese counterparts, and support continued GOS participation in regional counternarcotics efforts. The U.S. will provide training, technical assistance and equipment to strengthen the GOS's counternarcotics and anticorruption efforts. The U.S. Embassy will continue to work toward establishing a permanent DEA presence in Suriname.

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# Trinidad and Tobago

## I. Summary

Trinidad and Tobago is a transit country for narcotics from South America to the U.S. and Europe. Evidence is insufficient, however, to establish that the quantity of drugs transiting Trinidad and Tobago has a significant effect on the U.S. In addition, the country produces marijuana for domestic consumption and export to other countries in the region, but the amount of marijuana produced is below the threshold for designating the country as a major drug-producing country under the Foreign Assistance Act of 1961, as amended. Trinidad and Tobago's petrochemical-based economy requires the import/export of precursor chemicals that can be diverted for use in cocaine production. While Trinidad and Tobago is not an important regional financial center, tax haven, or offshore center, it is likely that some money laundering takes place. (For details, see the Money Laundering section of this report.)

The Government of Trinidad and Tobago (GOTT) continued to be a strong ally of the U.S. on counternarcotics issues, and GOTT law enforcement agencies remained very cooperative with their U.S. counterparts. The GOTT's Joint Operations Coordination Center coordinated drug interdiction operations, including many joint operations with the U.S. GOTT officials participated actively in regional counternarcotics fora throughout 2001. The GOTT continued to provide resources in support of counternarcotics law enforcement efforts that resulted in increased cocaine seizures and marijuana eradication in 2001, and for domestic drug demand reduction and rehabilitation programs. Through the provision of technical assistance, training and equipment, the U.S. sought to help the GOTT strengthen all facets of its counternarcotics efforts. The GOTT is a party to the 1988 UN Drug Convention and continues to work vigorously toward meeting the Convention's objectives.

## II. Status of Country

Because of its proximity to Venezuela, Trinidad and Tobago is a convenient transshipment point for illicit drugs, primarily cocaine but also heroin, from South America destined for U.S. and European markets. There is no evidence, however, that the drugs entering the U.S. from Trinidad and Tobago are in an amount sufficient to have a significant effect on the U.S.

Trinidad and Tobago does not produce coca or opium poppy.

Marijuana is grown in Trinidad and Tobago, primarily for domestic use and export to other countries in the region, but not on a scale to make it a major drug-producing country. Trinidad and Tobago's petrochemical-based economy requires the import/export of precursor chemicals that can be diverted for the manufacture of cocaine hydrochloride.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Senior GOTT officials continued to support GOTT counternarcotics efforts through public statements and provision of resources. GOTT officials participated actively in regional counternarcotics fora. In addition, Trinidad and Tobago is an active participant in ongoing negotiations to reach a Caribbean regional maritime counternarcotics agreement. Trinidad and Tobago was the first Caribbean country to become President of the OAS's Inter-American Drug Commission, and held this position from September 2000 to September 2001.

In 2001, the GOTT entered into an agreement with the U.S. to co-fund the installation of surveillance equipment on two C-26 aircraft that the U.S. donated to the GOTT to enhance the Coast Guard Air Wing's drug interdiction capabilities. The GOTT continued to fund a U.S. Customs Service Advisory Team that is working with the GOTT's Customs and Excise Division to improve its narcotics detection and interdiction capabilities. The GOTT, with U.S. assistance, is reorganizing its Bureau of Inland

Revenue to strengthen detection of and penalties for financial crimes and to establish a criminal investigative division. In December 2001, the GOTT hosted a High-Level Meeting on Drugs and Crime that brought together Caribbean states and territories, donor nations, and regional organizations to review progress on the 1996 Barbados Plan of Action for Drug Control Coordination and Cooperation in the Caribbean and to discuss new threats to the region's security.

The GOTT has a counternarcotics master plan. The first half of the plan, approved in 1997, aims to reduce the supply of illicit drugs by prosecuting traffickers, strengthening the criminal justice system, and reducing opportunities for money laundering. The plan's second half addresses demand reduction. In 2000, the GOTT revised the plan to incorporate legal reforms, human resource development, technical training and rehabilitation, and established a National Drug Council to oversee the plan's implementation. The amended plan was approved by the Cabinet in June 2001.

**Law Enforcement Efforts.** The GOTT's inter-ministerial Joint Operations Command Center (JOCC) coordinated maritime drug interdiction operations throughout the year and served as a command center for regional interdiction operations. Cocaine seizures for the first three quarters of 2001 totaled 730 kilograms. The seizures resulted in large part from investigations undertaken by the Organized Crime and Narcotics Unit and the Counter-Drug/Crime Task Force, and several regional operations coordinated through the JOCC. In January 2001, law enforcement officials arrested 19 people and seized 560 kilograms of cocaine, reportedly the largest seizure ever, being loaded into a cargo container of vegetables destined for the U.S. The operation followed leads from a December 2000 seizure in Miami of 261 kilograms of cocaine in a container originating in Trinidad and Tobago. In November, 26.1 kilograms of cocaine were seized in a multinational operation coordinated through the JOCC. GOTT law enforcement officers made one seizure of 4.905 kilograms of heroin during the first three quarters of 2001, and they believe that several more attempts to smuggle heroin occurred. In the first three quarters of 2001, the GOTT made over 3000 arrests for drug-related offenses. The GOTT conducted marijuana eradication operations that in the first three quarters of the year resulted in the destruction of 10.2 million marijuana plants and seedlings, almost one and a half times the amount eradicated in 2000. The increase was due in part to larger U.S.-supported "Weedeater" operations, during which the U.S. provided equipment and helicopter transport for marijuana cutters.

**Corruption.** During 2001, no cases of drug-related corruption were filed against senior officials. The GOTT does not encourage or facilitate the illicit production or distribution of narcotics or the laundering of drug money. The GOTT has an integrity commission and, in 2000, enacted legislation that permits greater monitoring of the financial activities of a larger group of public officials. The GOTT is a party to the Inter-American Convention Against Corruption and in 2001 signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention.

**Agreements and Treaties.** Trinidad and Tobago is party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, 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. A bilateral U.S.-GOTT maritime agreement is in force. The GOTT signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants on September 26, 2001. Trinidad and Tobago is a member of the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD).

**Cultivation/Production.** Trinidad and Tobago is not a producer of cocaine or opium poppy. Marijuana is cultivated year-round in the forest and jungle areas of northern, eastern, and southern Trinidad and, to a minor extent, in Tobago. The GOTT estimates there are approximately 142 hectares under cultivation, although the total amount of cultivated marijuana cannot be determined accurately due to the method of cultivation in small quarter-acre lots in remote areas. There have also been reports of marijuana grown along with legal cash crops. Marijuana is eradicated by cutting and burning plants manually. Aircraft and

global positioning systems are used to detect crop areas and to facilitate ground troops in locating growing areas, but herbicides are not applied aerially.

**Drug Flow/Transit.** Only a few miles from the South American mainland, Trinidad and Tobago is a convenient transshipment point for illicit drugs, primarily cocaine but also heroin, bound for North America and Europe. Trinidad and Tobago has several airports and harbors, large volumes of cargo traffic, and a highly mobile population, making it an attractive transit point for illicit cargo via air and sea. A network of narcotics-smuggling organizations operates in Trinidad and Tobago. Although large vessels and pleasure craft are known to carry narcotics and contraband, small fishing boats are the main method of transport for drug deliveries. The drugs are smuggled out in yachts and commercial cargo containers, and by couriers. Increasingly, commercial courier services are being used to smuggle cocaine into the U.S. The courier services are now cooperating with law enforcement officials, and several seizures of cocaine have resulted. Cocaine has been found in both the Trinidad and Tobago airports and on commercial airline flights that stopped en route from Guyana to North America. In July 2001, the U.S. funded the procurement of an ionscan machine for use at the international airport, which has been instrumental in detecting cocaine and other drugs in carry-on luggage.

While the DEA noted a steady increase in the transshipment of cocaine and heroin through Trinidad and Tobago in 2001, some shipments are bypassing Trinidad and Tobago in favor of other islands, due in large part to the counternarcotics efforts of GOTT security forces. An increase in marijuana from Venezuela may indicate that demand is exceeding supply, which is further exacerbated by increased GOTT marijuana eradication efforts.

**Domestic Programs (Demand Reduction).** Programs to reduce the demand for illicit drugs are managed by the Ministry of Social Development, the Secretariat to the National Drug Council in the Ministry of National Security, and the Ministry of Education, with assistance from non-governmental organizations (NGOs). The GOTT also funds the National Alcohol and Drug Abuse Prevention Program, which coordinates NGO demand reduction efforts. The GOTT continued to support the D.A.R.E. program, which is carried out by the Community Policing Branch of the Trinidad and Tobago Police Service (TTPS), with support from the Department of State/INL. The U.S. also provided assistance to several police youth clubs established by the TTPS Community Policing Branch that provide local children with positive role models and drug awareness programming.

In October 2001, the GOTT formally opened the Piparo Empowerment Center, a drug rehabilitation facility located on the estate of drug trafficker Dole Chadee, who was executed by the GOTT. INL has provided training and commodities for the Center.

The GOTT passed legislation in 2000 that increases penalties for drug-related offenses and authorizes a court-supervised parole system in which drug addicts would be released from prison to undergo rehabilitation.

## IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** The key policy objective of the U.S. is to assist the GOTT in eliminating the flow of illicit drugs through Trinidad and Tobago to the U.S. The U.S. has focused on improving the GOTT's ability to interdict cocaine and other drug shipments, strengthen counternarcotics trafficking laws, bring traffickers to trial, attack money laundering, deter corruption, and protect witnesses from intimidation and murder.

**Bilateral Cooperation.** The U.S. continues to enjoy a very cooperative relationship with the GOTT, which plays a leading role in regional counternarcotics efforts. In 2001, the GOTT and USG participated in several maritime operations 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 shipriders on each other's vessels.

In 2001, the USG transferred to the GOTT a fourth 82-foot patrol boat for maritime interdiction. The GOTT continues to operate two C-26 and two Piper Navajo aircraft that the U.S. made available to the GOTT for counternarcotics surveillance. The GOTT and USG are co-funding a project to upgrade the C-26 aircraft with radar and sensor packages to enhance their surveillance capabilities. The GOTT continued to provide crew for the Caribbean Support Tender, a U.S. Coast Guard vessel with a multinational crew that provides training and assistance in ship maintenance and repairs to Caribbean coast guards.

The DEA added two agents to its staff in 2001, and helped the Ministry of Health develop the GOTT's precursor chemical control program. The U.S. provided Ministry personnel with in-country training and funded the procurement of computers and software to assist in the analysis of data obtained during inspections to determine if chemicals are being diverted into the illicit market.

A three-person U.S. Customs Service advisory team, which the GOTT funds, continued to work closely with the Customs and Excise Division to improve the effectiveness of its passenger and cargo processing, and strengthen its counternarcotics enforcement capabilities. The team also provided technical assistance and expertise in tracking small pleasure craft and cargo vessels. The U.S. Customs Service is helping the GOTT maintain its coastal radar surveillance system, established in 1998 with U.S.-donated radars, by providing three radars which will be used to replace two sites and create an additional one. Two high-speed patrol boats, funded by the Department of State/INL, were provided to the Customs Marine Interdiction Unit. To date, GOTT Customs has been involved in several interdiction efforts. The GOTT is also funding an Internal Revenue Service tax assistance and advisory service team to modernize the Bureau of Inland Revenue.

In 2001, INL funded GOTT participation in training courses, including a U.S. Customs Service course on integrity/anticorruption, an FBI regional seminar on public corruption, and a Department of Justice workshop on dismantling drug trafficking organizations.

**The Road Ahead.** The U.S. will continue to provide technical assistance and training to strengthen Trinidad and Tobago's maritime interdiction capabilities. The U.S. will also continue to support the GOTT's efforts to improve rule of law by providing assistance to help the GOTT reduce judicial delays and encouraging the GOTT to undertake the legal reforms necessary to fight drug trafficking and related crimes effectively. Representatives in Port of Spain will continue to participate actively in the Eastern Caribbean Working Group, which addresses subregional counternarcotics issues. The U.S. will work closely with the GOTT's Counter-Drug/Crime Task Force and the Bureau of Inland Revenue to strengthen the GOTT's ability to implement its asset forfeiture and anti-money laundering laws.

# **SOUTHWEST ASIA**





# Afghanistan

## I. Summary

Despite a remarkably successful ban on opium production in Taliban-controlled areas during the 2000-2001 growing season, Afghanistan remained one of the world's leading opium producers by virtue of continued cultivation in its northern provinces. Drug trafficking from Afghanistan continued throughout 2001 as traffickers relied on opium stockpiles as their source. By year's end, reliable reports indicated that farmers throughout Afghanistan had taken advantage of the Taliban's collapse to resume opium poppy cultivation.

The United States estimates Afghanistan's total opium cultivation for 2000-2001 at 1,685 hectares with a potential opium production of 74 metric tons. Traffickers of Afghan opiates continue to market most of their product in Europe but also target the United States. While the July 2000 poppy ban in Taliban-controlled areas was widely respected, overall efforts by the UNDCP and NGOs to reduce supply had little success due to the lack of cooperation and support from the Afghan factions. Neither the Taliban nor the Northern Alliance took any significant action to seize stored opium or precursor chemicals, or to arrest and prosecute narcotics traffickers. Afghanistan is a party to the 1988 UN Drug Convention.

The December 4 Bonn Agreement by Afghan factions establishing an Interim Authority, which would cooperate with the international community in the fight against terrorism, drugs, and organized crime, represents a good first step. On January 17, 2002, the Afghanistan Interim Authority issued its own ban on opium poppy cultivation, and promised to work with donors to assure it could be implemented.

## II. Status of Country

The Taliban's July 2000 ban on opium production was widely respected, with only an estimated 85 hectares of poppy cultivated in areas under Taliban control. The primary factor in having the ban so widely respected was the draconian nature of the authorities' enforcement efforts. However, based solely on the 1,600 hectares cultivated in Northern Alliance-controlled areas, Afghanistan remained one of the world's leading opium producers. By the end of 2001, Taliban rule had ceased as a result of coalition military activity. Efforts to form an interim government and begin reconstruction activities were underway at year's end. On December 4, 2001, the non-Taliban Afghan factions agreed to form an Interim Authority, which pledged to cooperate with the international community in the fight against drugs, and issued its own ban against poppy cultivation.

Despite the success of the poppy ban, stockpiles from previous years' bumper harvests have continued to fuel regional drug trafficking. The regional drug trade corrupts local authorities, is the major factor behind rising heroin addiction in refugee and indigenous populations, and is responsible for increased levels of terrorism and drug-related violence in neighboring countries. The Afghan drug trade also undermines the rule of law by generating large amounts of cash, contributing to regional money laundering and official corruption in countries with weak economies and institutions.

## III. Country Actions against Drugs in 2001

**Policy Initiatives.** In July 2000, Taliban "supreme leader" Mullah Omar issued a decree banning poppy cultivation in Taliban-controlled areas of Afghanistan in the 2000-2001 growing season. The ban was widely respected, and opium poppy cultivation was virtually eliminated in areas under the Taliban's control. Taliban authorities reportedly incarcerated farmers who violated the ban and forcibly eradicated their crops. International observers who visited Afghanistan in early 2001 recognized the success of the poppy ban. International efforts to provide assistance to farmers and agricultural workers affected by the

poppy ban were put on hold following the September 11 terrorist attacks in the United States and subsequent coalition military action.

The December 4, 2001 agreement on the formation of an Interim Authority “strongly urges that the United Nations, the international community and regional organizations cooperate with the Interim Authority to combat international terrorism, cultivation and trafficking of illicit drugs and provide Afghan farmers with financial, material and technical resources for alternative crop production.” It remains uncertain whether the urgings and even the financial support of the international community will be sufficient to eliminate poppy cultivation in Afghanistan quickly. In the wake of hostilities, which faction is actually in control in which region varies. Whether factions will follow a ban on poppy cultivation, issued by the Interim Authority is uncertain. The Northern Alliance, for example, has, so far as the U.S. is aware, taken no action against cultivation and trafficking in the area it controls. There have also been recent reports of farmers cultivating a second opium crop in Northern Alliance-controlled areas. However, with the establishment of an Afghan Interim Authority, the issuance of its poppy ban, and the Authority’s declaration that it is ready to work with the donor community to assure the ban can be implemented, there is hope for a truly effective poppy ban in Afghanistan.

**Accomplishments.** The success of the Taliban poppy ban was a significant accomplishment during 2000, but success was achieved through draconian enforcement actions with no concern for poor farmers’ welfare, a series of policy actions unlikely to be replicated by a civilized administration. The ban was not accompanied by attempts to reduce drug trafficking. On the contrary, stocks from prior years were simply sold off at prices higher than could have been realized without the ban. With the resumption of widespread cultivation following the Taliban’s collapse and the continued presence of traffickers within Afghanistan and the region, the drug trade will continue to flourish absent concerted enforcement efforts by an interim government and the international community. The Interim Authority and important elements of the donor community are contemplating such action, but with so many development priorities contending for attention, and a very difficult situation on the ground, it is unreasonable to expect an effective ban immediately. In 2001 the United States continued to believe the UNDCP’s annual opium poppy survey in Afghanistan as well as the UNDCP’s crop monitoring programs are of great importance, and significantly add to the information needed to make effective policy and assess its effectiveness.

**Law Enforcement Efforts.** In the absence of an effective central government, a trained counternarcotics force, or an operational drug policy, there is virtually no counternarcotics law enforcement in Afghanistan at present. While the Taliban controlled most of Afghanistan, neither major faction—Taliban nor Northern Alliance—demonstrated the will to address continuing narcotics trafficking. Afghanistan does not yet have any effective arrangements to plan and coordinate drug control efforts. There is hope that the Interim Authority will address these shortcomings, with the assistance of the international community, as it strives to implement its ban on poppy cultivation in a more humane fashion than the Taliban.

**Agreements and Treaties.** Prior Afghan governments became party to a number of international conventions, and made specific commitments concerning the cultivation, trafficking, and abuse of illicit drugs in Afghanistan. Afghanistan is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs. There was no evidence of substantial compliance with any of these agreements in Afghanistan in the period before the establishment of the Interim Authority in December 2001. Afghanistan also signed the UN Convention against Transnational Organized Crime in December 2000. The Interim Authority has pledged to abide by international legal obligations to which Afghanistan is a party, and has already begun to work with the international community to bring Afghanistan into compliance with its international obligations.

**Cultivation/Production.** During 2001, Afghanistan was the world’s second largest producer of opium and a major producer of cannabis. In prior years, (1998-2000) it was the number one producer. An estimated 74 metric tons of opium was produced in 2001. Poppy cultivation was reduced dramatically as a result of the ban on production in Taliban-controlled areas. By the end of 2001, however, there were widespread reports of a resumption of cultivation in Nangarhar, Helmand, Kandahar, and Oruzgan

provinces, with those reports estimating a significant spring crop. While this cultivation violates the Interim Authority's ban, the Authority lacks means to enforce its ban, and it must work with local power centers and the donor community if the ban is actually to be respected on the ground. In 2000, Helmand province alone accounted for more than half of the total opium poppy cultivation in Afghanistan and was responsible for 39 percent of the world illicit opium supply. Helmand's key role in poppy production results from its endowment with good soil and favorable rainfall, so control of poppy cultivation in Helmand is key to any effective poppy ban.

An infrastructure for the production of morphine base and heroin has been developed in Afghanistan in recent years. This is in contrast to the situation in the early 1990s when nearly all heroin refining took place outside the country. Most laboratories refining opium into heroin operate in Nangarhar and Helmand provinces. Some laboratories also may be located near the Afghan borders of Central Asian countries.

**Drug Flow/Transit.** Opium trading in Afghanistan and Southwest Asia is well-organized. Traders offer growers advances to finance inputs and to 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 nonperishability mean that it also serves as an important source of savings and store of value among traders and cultivators. Taliban and Northern Alliance authorities have reportedly facilitated, and profited from, the internal transit and export of drugs.

As much as half the illicit drugs produced in Afghanistan could be consumed/seized in Afghanistan and neighboring Iran, Pakistan, Tajikistan, Uzbekistan, Turkmenistan, and other states in Central Asia and the Persian Gulf, according to the UNDCP. U.S. seizure data suggest that at least five percent (approximately one metric ton) of the heroin imported into the United States originates in Afghanistan. Smuggling routes are varied. Historically heroin has been trafficked to Europe and North America through Pakistan, Iran, and Turkey, but smuggling routes through the Central Asian Republics are proliferating. Afghanistan provides raw opium primarily for local consumption in Pakistan, Iran, and the Persian Gulf, where trafficking organizations have strong links.

On a regional basis, the 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. Tajik, Iranian, and Pakistani law enforcement forces are engaging more frequently in armed confrontations with well-equipped narcotics traffickers moving large quantities of drugs across the Afghanistan border, and drug seizures in all these countries are quite high.

**Corruption.** Under Taliban administration in Afghanistan, there was good reason to believe that the Taliban as a matter of policy and practice encouraged or facilitated the illicit production and distribution of opium and opium-derived drugs. The Taliban benefited from the opium traffic by taxing it, and even apparently benefited from its own ban on production by dumping opium stocks at prices higher than could otherwise have been achieved. The newly established Interim Authority has issued a ban on poppy cultivation and offered to work closely with the international community to see that the ban is enforced. The Authority's Chairman, Hamid Karzai, has promised the international community good governance and efficient use of development assistance.

**Domestic Programs (Demand Reduction).** Drug abuse is rising in Afghanistan. The increase in opium and heroin production in recent years inevitably has made more drugs available on the local market. 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 almost exclusively ingested orally or inhaled, and are very rarely injected. Of particular concern is opium abuse among women and passive opium exposure of very young children.

Heroin addiction is growing, especially in Jalalabad, Kabul, Kandahar, Herat, and Afghan refugee camps. A Taliban court in October 1997 issued a decision that “addicts of illicit drugs should be referred to a hospital/treatment center to receive proper treatment.” Nonetheless, throughout 2001, the Taliban incarcerated rather than treated drug addicts. Some non-specialist hospitals and clinics in Afghanistan provide treatment to drug users. In Badakhshan province, where ten to 25 percent of the local population is believed to use opium, at least one NGO has set up drug treatment facilities, but security concerns have forced the UNDCP to close a demand reduction program in Badakhshan. Needless to say, among development priorities for the new Afghanistan will be quick re-establishment of some facilities for treating addiction.

The UNDCP’s drug awareness program in Afghanistan is limited by a lack of resources. Its drug demand reduction program focuses on the need to provide community-based drug treatment and prevention programs. In 2000, the UNDCP organized campaigns in Kandahar using the district Shura, community representatives, and local representatives. The UNDCP also trained over 100 female community mobilizers in drug awareness, basic health, and sanitation. Every effort will be made to reestablish drug education programs now that Afghanistan is no longer under Taliban rule.

#### **IV. U.S. Policy Initiatives and Programs**

Regionally, the United States is cooperating with the UNDCP and Afghanistan’s neighbors to build national and regional capacities to counter the Afghan drug trade. The United States has been active in the UN-sponsored Six Plus Two Group (Iran, Pakistan, China, Tajikistan, Uzbekistan, and Turkmenistan, plus the United States and Russia) in efforts to launch a regional counternarcotics initiative. In September, the Six Plus Two Group held a technical meeting in Islamabad to further the Regional Action Plan to counter the Afghan drug trade.

**The Road Ahead.** As the focus in Afghanistan shifts toward development in the wake of formation of an interim governing authority and a Donor Group Pledge Session, the United States will work to ensure that international counternarcotics goals are taken into account. Toward this end, the United States will work with other donors on a strategy to eliminate opium poppy cultivation. There is also a need to develop indigenous law enforcement capacity and a functioning judicial system within Afghanistan.

In the meantime, narcotics trafficking in the region will continue, despite the best efforts of the Interim Authority and the international community. The United States seeks to contain the flow of opium and heroin from Afghanistan through a stronger focus on regional counternarcotics cooperation. As coordinator of the Six Plus Two counternarcotics initiative, the United States will continue to support and advance the Regional Action Plan and the efforts of the Interim Authority to enforce its ban on poppy cultivation.

# *Afghanistan Statistics*

*(1993–2001)*

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Opium</b>									
Potential Harvest (ha)	1,685	64,510	51,500	41,720	39,150	37,950	38,740	29,180	21,080
Eradication (ha)	—	—	—	—	—	—	—	—	—
Cultivation (ha)	1,685	64,510	51,500	41,720	39,150	37,950	38,740	29,180	21,080
Potential Yield <sup>1</sup> (mt)	74	3,656	2,861	2,340	2,184	2,099	1,250	950	685

<sup>1</sup> Note: Potential production estimates for 1996-1999 have been revised upward from previous INCsRs, reflecting improved methodologies for estimating opium yields. The estimates of land area under poppy cultivation in Afghanistan for those are unchanged and have not been revised.

# Bangladesh

## I. Summary

Because of its geographic location in the midst of major drug producing and exporting countries, Bangladesh is used by trafficking organizations as a transit point. Seizures of heroin in the past year also point to an increased level of narcotic use in Bangladesh itself. While there are unconfirmed reports of opium cultivation along the border with Burma, there is no evidence to indicate that Bangladesh is a significant producer or exporter of narcotics. While the government took enforcement and other measures to deter narcotics consumption and transit, the government's Department of Narcotics Control (DNC) lacks training, equipment, and other resources to detect and interdict the flow of drugs. Moreover, there is minimal coordination between the DNC, the police, the border defense forces known as the Bangladesh Rifles (BDR), and the judiciary's local magistrates in charge of orchestrating counternarcotics operations. Corruption at all levels of law enforcement also hampers the country's drug interdiction efforts. Bangladesh is a party to the 1988 UN Drug Convention.

## II. Status of Country

Insufficient information exists to determine whether Bangladesh produces illegal narcotics or precursor chemicals. Reports of opium production in the Bandarban district along the Burmese border have not been substantiated. The country's largely porous borders makes it an attractive transfer point for drugs transiting through the region.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Bangladesh government (BDG) continued in 2001 to be supportive of counternarcotics efforts. The BDG has worked to implement and enforce the Narcotics Control Act which the parliament passed in November 2000. The BDG is also working, with USG assistance, to provide the DNC and other law enforcement officials with additional training on counternarcotics activities.

**Accomplishments.** The BDG has maintained consistency and continuity in its counternarcotics efforts. The DNC's central chemical laboratory for identifying and evaluating seized drugs became operational this year and its capabilities are being expanded with proposals for additional equipment and expertise.

**Law Enforcement Efforts.** Law enforcement units engaged in counternarcotics operations include the police, the DNC, the BDR, and local magistrates. According to the BDG's Directorate of Customs Intelligence and Investigation, Bangladesh authorities seized 23.340 kilograms of heroin and 8,384.7 kilograms of marijuana from January through October 2001. The BDG remains interested in further training of its narcotics detection and interdiction forces. Law enforcement personnel across the spectrum of forces involved in counternarcotics work have little to no specialized training on how to execute their missions.

**Corruption.** There are numerous credible reports of corruption in Bangladesh. There is no doubt that corruption is a big problem in a country as poor as Bangladesh. Some officials facilitate the smuggling of narcotics. Corrupt officials can be found throughout the chain of command. Even when caught, prosecuted, and convicted most corrupt officials receive a reprimand at best, and termination from government service at worst. They receive no jail time. Given the ubiquitous poverty, and therefore the widespread prevalence of corruption, these cases are not taken seriously by the adjudicating authorities.

**Agreements and Treaties.** Bangladesh is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 Single Convention on Narcotic Drugs, as amended

by the 1972 Protocol. Bangladesh has a memorandum of understanding on narcotics cooperation with Iran, and it participates in information sharing with the government of Burma.

**Cultivation/Production.** Unsubstantiated rumors persist that opium production takes place in the Bandarban district along the border with Burma. No other evidence or intelligence is available to indicate that Bangladesh is a cultivator/producer of narcotics.

**Drug Flow/Transit.** Bangladesh is an ideal target for organized traffickers looking for a transfer point for smuggling drugs. The country's air, sea, and land ports are guarded by sometimes corrupt officials who have little training, if any, on counternarcotics operations. There remains no DNC presence at the country's second largest airport in Chittagong. Customs officers continue to be untrained in detecting and interdicting drugs. To date, no random searches of crews, ships, boats, vehicles, or containers have been performed at Bangladesh's largest seaport in Chittagong. Elements of the BDR, responsible for land border security within a 12-mile swath inside the country, have abetted the smuggling of goods, including narcotics, into the country.

**Domestic Programs (Demand Reduction).** The drug addicts rehabilitation organization APON and its affiliates, founded by a Catholic Brother, are the only long-term residential rehabilitation centers in the country. There are four centers that operate under APON's auspices. The BDG's outpatient and detoxification centers are not very successful in dealing with the addiction problem in Bangladesh. The population of addicts is uncertain—estimates range from 100,000 to over a million.

## IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** The USG continues to support Bangladesh's counternarcotics efforts through various commodities and training assistance programs. USG strategy includes the development of the BDG's capabilities in detection and interdiction of narcotics, especially the abilities of the border security forces to effectively do their jobs. Equipment and law enforcement courses will be provided to the police, DNC officers, and possibly members of the BDR in 2002. Other initiatives under consideration include the modernization of law enforcement training facilities in Bangladesh, and further development of anticorruption programs within the government.

**Bilateral Cooperation.** The USG sponsored an anticorruption seminar at the start of 2001, provided additional law enforcement training for BDG officials, and continued to work with the BDG in constructing a comprehensive strategic plan to develop, professionalize, and institutionalize Bangladesh's counternarcotics institutions and officials.

# India

## I. Summary

India is one of the world's largest producers of licit opium and the only country authorized to produce licit opium gum. It is a key heroin transshipment area due to its location between Southeast Asia and Southwest Asia, the two main sources of illicitly grown opium. India is a modest, but apparently growing, producer of heroin for the international market. The Government of India (GOI) continues to tighten controls to curtail diversion of licit opium, but an unknown quantity of licit opium finds its way to illicit markets. A small amount of illegal poppy is cultivated in the foothills of the Himalayas in northwest India, and also in northeastern India.

In 2001, the GOI conducted a Joint Licit Opium Poppy Survey (JLOPS) in cooperation with the United States for the purpose of developing a methodology to estimate opium gum yield. While the results of the first survey conducted during the 2001 opium harvest have not been finalized, plans are underway to conduct the survey for a second year during the 2002 harvest. The ability to estimate yields will provide a firmer scientific basis for establishing Minimum Qualifying Yields (MQY) for farmers—a significant tool in fighting diversion.

India has a large and fairly advanced chemical industry that manufactures a wide range of chemicals, including several precursor chemicals. These precursor chemicals are vulnerable to diversion for the manufacture of illicit narcotics. GOI controls restrict access to acetic anhydride, a chemical used to process opium into heroin. The chemicals n-acetylanthrannilic acid, ephedrine, and pseudoephedrine and their salts are also fully controlled. The GOI reviews its chemical controls annually and updates its list of “controlled substances” as necessary.

India is a party to the 1988 UN Drug Convention.

## II. Status of Country

**Licit Opium Production.** Opium poppy is grown legally in the states of Madhya Pradesh, Rajasthan, and Uttar Pradesh under a stringent licensing policy controlled by the Central Bureau of Narcotics (CBN). India is the only country that still produces raw opium gum rather than concentrate of poppy straw (CPS). Certain processing facilities in the U.S. are optimized for opium gum and thus prefer it as a raw product, but it is difficult for customers to use, as a residue remains after alkaloids have been extracted, and this residue must be dealt with in an environmentally sensitive way. Nonetheless, the gum opium, labor-intensive way to produce opium suits India's circumstances better than the more capital-intensive straw process. Under the terms of internationally agreed covenants, India is required to maintain licit production of opium and carry-over stocks at levels no higher than those consistent with world demand, i.e., to avoid excessive production and stockpiling, which could be diverted into illicit markets. India has complied with this requirement and succeeded in rebuilding stocks over the past three years from below-recommended levels. After a period of low stocks because of failed crops, opium stocks now exceed minimum requirements.

India's opium buffer stocks were depleted in 1998. To meet India's share of anticipated world demand for licit opium and rebuild depleted domestic stockpiles toward an International Narcotics Control Board-recommended level of approximately 750 metric tons (90 percent solid), the GOI licensed a larger number of farmers and an increased area for poppy cultivation during 1999 and 2000. In 1999, the GOI licensed 156,071 farmers and 33,459 hectares, of which 29,163 hectares were harvested. The 1999 crop produced a yield of 971 metric tons at 90 percent solid, against a target of 1,300 metric tons, representing an average yield of 47.4 kilograms of gum per hectare.



For the 2000 crop year, the Indian government set a licit opium production target of 1,200 metric tons (90 percent solid), and licensed 159,884 farmers to cultivate opium on 35,271 hectares, of which 32,085 hectares were harvested. The 2000 harvest yielded 1,302 metric tons at 90 percent solid gum, exceeding the GOI's target and representing the highest yield ever in Indian opium cultivation history. Though the 1999 and 2000 harvests had similar weather conditions, enhanced enforcement during the harvest and official weighing periods prompted farmers to turn in appreciably higher yields to government purchasing agents in 2000. The average yield increased by 12 percent from 47.4 kilograms/hectare in 1999 to 53.14 kilograms/hectare in 2000, leading to speculation about the possible extent of diversion in the prior year. Initial estimates on the amount of suspected diversion of opium from the 1999 harvest ranged as high as 300 metric tons, which would have represented almost 25 percent of the whole crop. The GOI disputed these estimates, citing other factors, such as crop diseases and insufficient water, which adversely affect the average yield. More conservative estimates, based on a comparison of the actual harvested land and the average yield in each year, place the amount of diversion in 1999 around 170 metric tons (15 percent of the crop). The apparent success in curtailing diversion in 2000 appears due in large part to the more aggressive GOI drug control efforts during the harvest and collection period of the crop. Strong enforcement efforts were also evident during the 2001 harvest.

For the 2001 crop year—reflecting the GOI's success in 2000 in almost doubling the minimum required licit opium stockpile to 1,420 metric tons at 90 percent solid—the GOI target yield was reduced to 900 metric tons at 90 percent solid (1,157 metric tons at 70 percent solid). The total licensed area was reduced from 35,271 hectares to 26,684 hectares, and the number of licensed farmers was reduced from 159,884 to 133,409. Due to severe drought conditions in Madhya Pradesh, however, only 96,435 of these farmers were able to cultivate 18,086 hectares, representing only 68 percent of the total licensed area. The GOI reported a total yield of 727 metric tons of opium at 90 percent solid (935 metric tons at 70 percent solid), falling short of the GOI target by 19 percent. The average yield for the 2001 harvest was 51.64 kilograms/hectare, down from the average yield of 53.14 kilograms/hectare in 2000.

In drought-affected Madhya Pradesh, farmers were able to cultivate only 45 percent of the licensed land, all of which required irrigation. Despite the reduced cultivation in Madhya Pradesh, farmers there achieved an average yield of 56.37 kilograms/hectare, representing an increase in their average yield of 55.79 kilograms/hectare from 2000. Farmers in Rajasthan and Uttar Pradesh realized average yields of 57.384 kilograms/hectare and 36.085 kilograms/hectare, respectively, compared to average yields in 2000 of 53.82 kilograms/hectare and 44.77 kilograms/hectare. The significant drop in the average yield from 44.77 kilograms/hectare to 36.085 kilograms/hectare in Uttar Pradesh is attributed to record levels of farmers tendering adulterated opium. Over 5,500 farmers in Uttar Pradesh are currently being investigated for adulterating 66 metric tons of opium with a substance known as dextrine. An additional 500 farmers in Rajasthan submitted adulterated opium. The total amount of suspected or adulterated opium reported by the GOI was approximately 72 metric tons, roughly eight percent of total yield. All 6,000 farmers involved have been de-licensed and may face charges under the amended Narcotic Drugs and Psychotropic Substances Act of 1985 pending further investigation.

For the 2002 crop year, 118,596 cultivators have been licensed for opium cultivation over an area of about 23,719 hectares. The target yield of opium for the 2002 harvest is 952 metric tons at 90 percent solid (1,224 metric tons at 70 percent solid). Only those cultivators who tendered the minimum qualifying yield (MQY) for the 2001 harvest have been given licenses for 2002, i.e., at least 52 kilograms/hectare for Madhya Pradesh and Rajasthan, and 44 kilograms/hectare for Uttar Pradesh. No first-time cultivators will be licensed for the 2001-2002 growing season, as was the case for the 2000-2001 season. The MQY has again been increased by the GOI for the crop year 2002. Cultivators must tender 53 kilograms/hectare in Madhya Pradesh and Rajasthan, and 45 kilograms/hectare in Uttar Pradesh during the 2002 harvest in order to be eligible for an opium license for the crop year 2003.

Licensed farmers are allowed to cultivate a maximum of 20 "ares" (1 are is 100 M<sup>2</sup>, so 20 ares = one-fifth of a hectare) and are expected to remit their entire yield to the CBN. The GOI's Ministry of Finance announces the MQY in the annual Opium Policy at the beginning of each opium cultivation season in

September or October. The MQYs are based on historical yield levels from licensed farmers during previous crops. Increasing the annual MQY has proven effective in increasing productivity, as measured in average yields, and providing a deterrent to diversion.

Other licit opium diversion controls introduced in 1999 were continued in 2000 and 2001 and include re-surveys of plots after the planted crop reaches a particular stage of growth to ensure 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. Daily yields are recorded in a so-called Procurement/Weightment(sic) Register by a designated official. The register is checked regularly and the yield tendered by the cultivators is physically verified to check the correlation between the two. During the lancing period, preventive checks and raids are conducted to search for opium that might have been concealed by the cultivators. During the course of these raids, CBN officers discovered 11 tons of concealed opium during the 2000 harvest and seven tons during 2001. To increase control over licit opium production, the amended NDPS Act places offenses relating to cultivation and embezzlement of opium by licensed cultivators on par with other drug trafficking offenses.

The GOI also periodically raises the official price paid to farmers to encourage greater productivity and prevent diversion to the black market. Opium farmers can receive prices four to five times higher than the base government price of Indian Rupees (Rs.) 630 per kilogram from opium middlemen and money lenders who in turn sell the opium for still higher black market prices. GOI price increases are related to the export price that the United States and other countries are willing to offer in the international market for Indian opium. Citing stable commercial export prices and an apparent decrease in export demand, the GOI announced prices would not be increased for the second year in a row. The last increase was effective for the 2000 opium harvest. For the crop years 2000, 2001, and 2002, the established price schedule (opium yield per hectare and price per kilogram at 70 percent solid) ranges from Rs. 630 for yields from up to 44 kilograms/hectare to Rs. 1,200 for more than 100 kilograms/hectare.

India produces opium by traditional methods, extracting the opium gum by hand by lancing the capsules. India's licit opium gum is high in morphine content and has other alkaloids such as thebaine now favored by international narcotics raw materials importers. Other legal producers of opium alkaloids, such as Turkey, France, and Australia, produce concentrate of poppy straw (CPS), harvesting unlanced poppy capsules and using a chemical extraction process. India is currently conducting some limited experiments to explore the possibility of conversion of some of its opium crop to the CPS method and to determine the feasibility of extracting additional alkaloids from already-lanced poppy straw.

India's traditional style of harvesting opium gum has an inherent weakness in controlling diversion. Each year over one million farmers and farm workers come into contact with the poppy plants and their lucrative gum. Closely policing these farmers operating on privately held land scattered throughout three of India's largest states is a considerable challenge for the CBN, which has a permanent staff of 1,500 officers. During the harvest season, CBN's forces are bolstered by 18 teams of Central Excise officers with vehicles to help patrol the fields and oversee the harvest. Six teams of six officers each are assigned to each of the three states.

Though no reliable estimate of diversion from India's licit opium industry exists, official Indian observers and drug enforcement officials have estimated diversion at ten to 30 percent of the crop. A large portion of the diverted opium is consumed domestically. CBN estimates a minimum of 80 to 100 tons of opium alone is required to supply India's opium addicts. There was international concern that diversion in 1999 was at record levels but most observers believe that diversion was greatly curtailed in 2000 and 2001. A ten percent rate of diversion would put some 90 tons of opium gum from the 2001 harvest and 170 tons of opium gum from the 2000 harvest (both figures at 70 percent solid) into the illicit narcotics market and make India among the world's largest producers of illegal opiates.

**Heroin Production.** While criminal elements produce heroin from both diverted legal opium and illegally grown opium, no reliable data is available on the extent of production. Poppies are grown illicitly in the

Himalayan foothills of Kashmir and Uttar Pradesh, and in northeast India near the Burmese border in the states of Manipur, Mizoram, 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 for the United States.

Heroin base (“brown sugar” heroin) is the domestic drug of choice. “Brown sugar” heroin, originating in India, is available in Nepal, Bangladesh, Sri Lanka, and the Maldives. During 2001, the CBN detected and destroyed seven small-scale refining laboratories in India’s licit opium poppy growing regions. Since January 1999, Indian authorities have begun to seize small quantities of refined or white heroin, at least part of which was produced in India, destined for Sri Lanka and Europe. Such trends indicate nascent attempts to cater to western heroin markets that demand refined heroin as opposed to brown sugar heroin. GOI officials estimate that approximately 30 percent of heroin seizures are of Indian origin and acknowledge India’s emerging status as a heroin-producing country.

**Domestic Demand.** In the northeastern state of Manipur, injectable Southeast Asian heroin was common a few years ago and needle sharing spread the HIV virus. But since the mid-1990s the drug of choice in northeast India has been proxyvon, a painkiller in capsule form that is opened, the contents dissolved in water, and then injected. Proxyvon is now the drug of choice as it costs about 34 cents per dose, compared to a price of \$2 and higher for a dose of heroin.

**Precursor Diversion.** India produces approximately 45,000 metric tons of acetic anhydride (AA) for the legal domestic and international chemical markets. Locally, much of the licit AA is used by the tanning and dyeing industries. Raids on some dye manufacturers in December 2000 revealed that 50 tons of AA were unaccounted for, supporting suspicions that significant quantities of AA continue to be diverted to heroin or methaqualone (mandrax) laboratories throughout South Asia. Because AA is a controlled substance, AA manufacturers are required to seal all trucks leaving their factories, yet the chemical apparently gets diverted in transit. In early 2001, investigations by the Narcotics Control Bureau (NCB) in Mumbai led to the unraveling of a major racket involving diversion of AA for the manufacture of methaqualone. The case involved transporters, warehouse keepers, and middlemen who were fencing AA to illicit methaqualone manufacturers and resulted in the seizure of 8.5 tons of AA. Total AA seizures in 2001 were 8,501 liters involving six cases compared to 1,337 liters seized in 2000 in 14 cases. In 1993 the GOI imposed controls on the production, sale, transportation, import, and export of AA. These controls have reduced the availability of the chemical to the illicit market. Nevertheless, illicit diversion of precursor chemicals from India continues to occur.

India produces over 500 metric tons of ephedrine and pseudoephedrine annually. Both of these precursors, which are illicitly used to produce methamphetamine and amphetamine tablets, were declared controlled substances in December 1999. While seizures fell from 2,134 kilograms in 1999 to 532 kilograms in 2000, 840 kilograms of ephedrine were seized in January 2001 alone. Total seizures for 2001 were 1,017 kilograms. The majority of the seizures were destined for Myanmar, where a significant industry of illicit manufacturers of amphetamine-type stimulants (ATS) exists. A total of 5,600 ATS tablets were seized in 2001, compared to 8,804 tablets in 2000, most of which were made along the Burmese border with the state of Manipur, near Moreh.

**Transit Routes.** India is a transit route for illicit heroin, hashish, and morphine base from Afghanistan, Pakistan, Burma, and to a lesser extent, Nepal. Over the past few years, Sri Lanka has emerged as an important destination for heroin transiting through and from India, and heroin seizures in the southern areas of India have increased sharply. The NCB reports that in 2001 approximately 200 kilograms of heroin were seized bound for Sri Lanka. The amount of Indian-origin heroin or other drugs that enters the United States is not believed to be significant. Trafficking in Indian-produced methaqualone to Southern and Eastern Africa continues. In March 2001, the NCB seized 400 kilograms of mandrax/methaqualone tablets in Mumbai after searching an export container destined for South Africa. Seizures of methaqualone totaled 1,984 kilograms in 2001. Cannabis smuggled from Nepal is mainly consumed within India, but some makes its way to western destinations.

### III. Country Action Against Drugs in 2001

**Policy Initiatives.** India's stringent Narcotic Drugs and Psychotropic Substances (NDPS) Act of 1985 was amended on October 2, 2001, bringing significant flexibility to the sentencing structure; removing obstacles faced by investigation officers related to search, seizure, and forfeiture of illegally acquired property; and providing for controlled deliveries to facilitate investigation both within and outside the country. The amended NDPS Act also clarifies the application of bail for serious offenders more likely to flee before trial, and closes various technical loopholes that previously hindered the prosecution and conviction of drug traffickers. Financial investigations have been made easier with amendments that criminalize the laundering of drug proceeds and allow the freezing of assets of the drug offender prior to a conviction. Provisions of entry, search, and seizure have now been expanded to include cases relating to financial investigations and controlled substances, giving investigating officers the same powers of investigation in cases related to precursor diversion as they have in other drug investigations. Offences under the Act punishable for a term of more than three years may be tried only by the Special Courts; offences punishable for less than three years may be tried at first instance.

The amended Act now provides punishment in three categories, depending on the quantity of drugs seized (small, greater than small but lesser than commercial quantity, and commercial quantity). Punishments range from six months imprisonment and/or a fine of Rs. 10,000 (\$213) for small quantities; to up to ten years imprisonment and/or a fine of Rs. 100,000 (\$2,128) for the second category; and from ten to twenty years imprisonment and/or a fine of Rs. 100,000-200,000 (\$2,128-\$4,256) for commercial quantities. Prior to the amendment, an individual found in possession of small quantities of a controlled substance was subjected to the same penalties as someone found trafficking in large quantities of narcotics. Judges were believed to be reluctant to find small-time traffickers and addicts guilty, as the mandatory sentence was ten years imprisonment. Defendants were frequently released on minor technicalities. The amended Act is expected to significantly increase the conviction rate for future violators of the NDPS.

- In 2001, the GOI announced that the NCB would shift from under the control of the Ministry of Finance to the Ministry of Home Affairs effective April 1, 2002. The move is expected to enhance the NCB's law enforcement capabilities and align the bureau with other GOI police agencies under the control of the Home Ministry. A number of proposals are also under consideration to bolster the professionalism of the NCB, including extending the length of deputation of officers to the NCB from three to five years, and adding an extension clause for an additional two years.
- The United States and India signed a bilateral mutual legal assistance treaty on October 17, 2001. The treaty will allow more efficient law enforcement cooperation between the two countries.
- The GOI also approved the opening of a U.S. Customs Service office at the U.S. Embassy. The office is expected to open in the summer of 2002.
- The GOI is currently conducting some limited experiments to explore the possibility of conversion of some of its opium crop to the CPS method and to determine the feasibility of extracting additional alkaloids from already-lanced poppy straw.

**Accomplishments.** In addition to the significant policy and bilateral cooperation initiatives above, India's various agencies involved in drug control work, particularly the CBN and the NCB, continued to take steps to curb drug trafficking and abuse in India during 2001. While the CBN oversees the licit opium program and India's chemical industry, the NCB is responsible for counternarcotics efforts and law enforcement coordination. Despite new initiatives, both the CBN and the NCB continue to face personnel and financial constraints in conducting a strong counternarcotics program.

- According to information provided by the GOI, 21 drug trafficking syndicates engaged primarily in trafficking heroin from Pakistan to India and from India to West Africa, Sri Lanka, and Bangladesh have been dismantled, as have eight inter-state gangs of drug traffickers.
- Indian authorities have established a continuous aerial/satellite-based system for monitoring licit and illicit opium cultivation nationwide. The system is expected to become operational in early 2002.
- The CBN has initiated a special project to explore income substitution and alternative development programs with the aim of total eradication of poppy cultivation in the illicit poppy growing areas of Arunachal Pradesh. During the past two poppy seasons, the CBN conducted two ground surveys covering four districts of Arunachal Pradesh, where opium has become an important cash crop. The surveys were undertaken to collect demographic, economic, and cultural data; to assess the extent of illicit opium poppy cultivation and opium drug addiction; and to explore options for viable alternative development. To elicit the cooperation of the villagers in the survey, the CBN did not conduct illicit poppy eradication campaigns in these areas during the 2000-2001 growing season.
- Indian authorities continued to work closely with the drug enforcement agencies of other countries. On the basis of intelligence provided by the GOI, U.S. Customs, in coordination with DEA authorities, seized five kilograms of heroin in New York in August 2001. British Customs also seized 3.5 kilograms in May 2001 on the basis of intelligence provided by India. In another example of excellent cooperation between the United States and India, two Indians involved in a heroin trafficking conspiracy were convicted and sentenced in Mumbai in 2001, on the basis of testimony provided by DEA officials in 2000.
- The GOI continued to work with the UNDCP on studies of drug demand reduction and precursor chemical control in South Asia. To learn more about India's own drug problem, the Ministry of Social Justice and Empowerment and the UNDCP embarked on a comprehensive survey of narcotics addiction nationwide. The first results of the survey are expected in early 2002. Under the "Scheme for Prohibition and Drug Abuse Prevention" begun in 1985, the GOI funds 90 percent of the costs of 340 NGOs in maintaining 425 drug treatment centers nationwide. The GOI is also working with the ILO and the UNDCP to implement community-based rehabilitation and workplace prevention programs.
- India also participates in bilateral efforts to counter narcotics trafficking. Under the auspices of the UN and with U.S. encouragement, meetings between counternarcotics officials of India and Pakistan, which began in 1994, have continued. An Indo-Pak Quarterly Coordination meeting was held in August 2001 at the Nagah border. Periodic meetings also take place with Burmese officials along the border, most recently in September 2001, to exchange narcotics information and coordinate enforcement operations on either side of the Indo-Burma border. India and Sri Lanka have held "operational level talks" since 1997 and continue to do so to coordinate counternarcotics efforts. India also maintains close liaisons with other South Asian countries through the South Asian Association for Regional Cooperation (SAARC) drug offenses monitoring desk in Colombo that facilitates collection of data on drug seizures in SAARC countries.
- The CBN launched a website to educate and assist importers and exporters on precursor chemical requirements. The informative site includes a brief history of opium poppy

cultivation in India, background on the CBN, details of India's licit opium production and precursor chemical controls, and the CBN's efforts to pursue alternative development in India's illicit poppy growing regions.

- In early March 2001, the CBN sponsored a two-week training course on precursor chemicals for drug law enforcement officers of the Central Asian states. The course, which was hosted by CBN headquarters in Gwalior, also included tours of Delhi and Mumbai airports as well as the seaport in Mumbai.
- The NCB has requested assistance in upgrading its information management and intelligence gathering technology and expertise to enable it to conduct more sophisticated investigations of large-scale drug trafficking organizations. The Department of State's Bureau for International Narcotics and Law Enforcement Affairs is providing this assistance under the counternarcotics letters of agreement (LOAs) for FY 2000 and FY 2001.
- The NCB also launched a quarterly newsletter in June 2001 in order to share information on the latest trends in drug trafficking, seizure data, High Court judgments and interpretations of the NDPS Act, and items of interest to drug law enforcement agencies.

**Precursor Chemical Control.** India participates in the multilateral potassium permanganate tracking program, "Operation Purple," and India's CBN Narcotics Commissioner is co-chairing the AA tracking program, "Operation Topaz." CBN will host an Operation Topaz Steering Group meeting in New Delhi in February 2002 in conjunction with an INCB-sponsored conference on ATS precursors. A series of meetings held by the CBN and the NCB with the industry in 1996 produced a voluntary code of conduct among firms that is aiding the enforcement effort. The GOI reports that cooperation from industry in controlling the availability of precursor chemicals continues to be strong. (For details, see the Chemical Controls chapter.)

**Law Enforcement Efforts.** The GOI continues to actively pursue investigations against drug traffickers operating within India and to interdict the flow of narcotics being smuggled across its borders. GOI officials state that smuggling of drugs into India has become more difficult and arrests and seizures of heroin are down due in part to fencing along large portions of the Indo-Pak border, and the disruption of Afghan trafficking routes and increased patrolling along the border since September 11. Other officials argue that enforcement has become more complacent because of a perception of false security provided by the fenced border. In October 2001, Directorate of Revenue Intelligence (DRI) officers seized 16 kilograms of heroin that had entered India through a fenced portion of the border. Provisional year-end reports provided by the GOI for 2001 indicated that an estimated 813 kilograms of heroin were seized, down 34 percent from 2000 (1,240 kilograms), but approximately equal to seizures in 1999 (861 kilograms). Opium seizures, all of which are determined to be of Indian origin and most of which occur in India's poppy growing regions, have remained relatively constant over the last four years. In 2001, opium seizures totaled 2,321 kilograms, down slightly from 2,684 kilograms in 2000 and up from 1,635 kilograms in 1999. Hashish seizures totaled 5,164 kilograms (versus 5,041 in 2000) and morphine seizures totaled 23 kilograms (versus 39 kilograms in 2000). During 2001, customs officers at New Delhi airport experienced first-time seizures of Buprenorphine, Diazepam, and Phenobarbitol. Officers detected and seized 7,913 vials of Buprenorphine injections, 650 tablets of Diazepam, and 49 kilograms of Phenobarbitone.

Through December 2001, 13,333 persons were arrested for drug-related offences, a figure that is down from 15,065 persons who were arrested in 2000. Through the year, 2,929 persons were convicted for drug trafficking, compared to 4,447 convictions in 2000.

**Corruption.** Allegations of corruption among law enforcement personnel, elected politicians, and cabinet-level ministers of the GOI continue to be aired in the Indian media. The United States receives reports of narcotics-related corruption, but lacks the means to assess the overall scope of drug corruption in India.

Both the CBN and the NCB have periodically taken steps to punish corrupt officials within their ranks. The CBN frequently transfers officials in key drug producing areas and has increased the transparency of paying licensed opium farmers to prevent corruption. The CBN reported one case of corruption in 2001 involving a CBN District Opium Officer and an Inspector who falsely reported the uprooting of an opium field. One of the suspects has been arrested and the other is a fugitive. The CBN seized 20 kilograms of opium in the course of the investigation.

**Agreements and Treaties.** India is a party to the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. India meets most of the requirements of the three UN drug conventions, to which it is a party through the NDPS Act of 1988, though India has yet to meet the money laundering requirement of the 1988 UN Drug Convention.

The United States and India signed a mutual legal assistance treaty on October 17, 2001. The treaty will allow more efficient law enforcement and counter-terrorism cooperation between the two countries. An extradition treaty between the United States and India, which entered into force July 21, 1999, replaced the 1931 U.S.-UK Extradition Treaty, on which the United States and India previously had relied. There are several U.S. extradition requests, submitted under both extradition treaties, that are currently pending in India courts.

In addition to being a signatory to the South Asia Association for Regional Cooperation (SAARC) Convention on Narcotic Drugs and Psychotropic Substances, India has entered into bilateral agreements with 13 countries for the sharing of strategic and operational intelligence. India holds regular meetings at various levels with drug enforcement organizations. During 2001, India also signed a memorandum of understanding and a bilateral agreement with Tajikistan.

**Cultivation/Production.** Small-scale illicit cultivation of opium has existed for years in areas of India's northeast, usually along the region's border with Burma and China. Cultivation in easily accessible areas of Mizoram and Manipur was successfully eliminated in the early and mid-1990s, although poppy cultivation is experiencing a recent revival in Manipur, according to CBN officials. The bulk of India's illicit cultivation is now confined to Arunachal Pradesh, the most remote of northeastern states, which has no airfields and few roads.

The CBN began organized poppy eradication campaigns in Arunachal Pradesh four years ago. In the first campaign, addressed to the 1997 opium crop, the CBN destroyed 35 hectares. This increased to 95 hectares in 1998, and 248 hectares in 1999. In 2000, 153 hectares were destroyed. In order to staff the force of 60 necessary for the annual eradication campaigns, ten CBN officers are assisted by customs officers from Shillong Customs Office. The Ministry of Finance provided the CBN with funds for fuel, camping gear, and stipends for this force. According to veterans of past eradication efforts, most of the illicit opium is grown to meet the needs of local addicts, a sizeable population. The CBN, however, is concerned that production is rising, with an increasing percentage used for commercial purposes, for sale locally or to heroin producers across the Burma border. Current rough estimates by the local drug control officials put opium cultivation in Arunachal Pradesh at 1,500 to 2,000 hectares. Estimates of opium gum yields are nonexistent, but CBN officials believe that the illicit production in Arunachal Pradesh yields at least eight kilograms per hectare.

**Drug Flow/Transit.** India is a transit area for heroin from Afghanistan and Pakistan and from Southeast Asia (Burma, Thailand, and Laos). Seizures in India of heroin from these two regions continue to provide evidence of India's transshipment role. Most heroin transiting India appears bound for Europe. Seizures of Southwest Asian heroin made at New Delhi and Mumbai airports reinforce this assessment. Increasingly significant seizures in the southern area of India, particularly in Tamil Nadu, confirm that smuggling of heroin from India to Sri Lanka continues unabated. There appears to be no significant level of heroin trafficking directly to the United States from India.

**Domestic Programs (Demand Reduction).** Reliable estimates of drug abuse in India are elusive. GOI and UN sources continue to cite a range of one to five million opium users and one million heroin addicts, though some NGOs working on drug abuse believe the true number of heroin addicts is much higher. Anecdotal reports from key drug abuse “hot spots” in northeast India and urban centers suggest that heroin abuse is increasing. In 1999, the UNDCP and the Ministry of Social Justice announced plans to conduct a joint survey of drug abuse nationwide, but this survey is now expected in early 2002. The UNDCP in 2000 embarked on two demand reduction projects in India. One targets northeastern India, where drug abuse rates and drug-related HIV/AIDS cases are the highest in India. A lack of international donor funding for these projects, however, has postponed their full implementation.

#### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** The United States has a close and cooperative relationship with the GOI on counternarcotics issues. Drug control cooperation expanded in 2001, building on several new initiatives launched in 2000. The Department of State’s Bureau for International Narcotics and Law Enforcement provided increased commodities and training assistance to Indian drug enforcement agencies, with a \$200,000 project signed with the Ministry of Finance in September 2000 followed by a FY 2001 project for \$300,000 to be signed with the Ministry in early 2002. This assistance will boost the drug enforcement capacities of various Indian agencies, providing equipment to the 11 NCB zonal units operating throughout India and to the Mizoram state government to counter drug and chemical trafficking across that state’s border with Burma. Cooperation between the DEA and Indian drug enforcement authorities is expanding, particularly in investigations into precursor chemicals smuggled from India to key drug production areas.

**The Road Ahead.** The GOI has tightened controls over licit opium cultivation and looks to increased U.S. cooperation for combating drug trafficking and narco-terrorism. The Ministry of Finance, the GOI lead for policy on drug control, is more actively shaping and coordinating drug control strategies among India’s various drug enforcement agencies and will continue to be the United States’ focal point for cooperative counternarcotics efforts. The GOI is increasingly concerned over the nexus between drug trafficking and terrorism. The GOI has recognized the need for stronger drug control efforts nationally, but in the northeast in particular. The United States will continue to explore opportunities to work with the GOI in addressing drug trafficking and production and other transnational crimes of common concern.



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## The Maldives

Consisting of 1,100 islands set in the Indian Ocean, the Government of the Republic of Maldives (GORM) has a comparatively small drug problem, but one which seems to be growing. The GORM is aware of the problem and is fully cooperative with the United States on counternarcotics issues. Children under 16 constitute over 50 percent of the Maldives' population. This fact makes police and United Nations Development Program officials wary of the high growth potential for drug abuse in the country. Nonetheless, the police feel they can still control the sale of drugs on the streets of the capital and most populated city, Male. Police officials believe the country's approximately 25,000 foreign workers, mainly Indians and Sri Lankans who work in the country's resorts, conduct most of the trafficking, which is nevertheless relatively limited in size.

Although it does not appear to be a transshipment point at this time, GORM officials fear that the Maldives has the potential to become a transshipment point for drug smugglers. Most drugs come into the country by sea, but the Maldivian Customs Service and police find it impossible to search all ships adequately. The GORM has discussed using drug-sniffing dogs to help search vessels, but opposition to the proposal, in part over questions of cost effectiveness, has prevented the project's implementation.

The United States has assisted the Maldives in counternarcotics activities, including via Colombo Plan support. The Colombo Plan is an assistance organization working in Asia, which has an established capacity of long duration to deliver demand reduction assistance to developing country member states. The GORM, assisted by U.S. \$25,000 in U.S. government funding, began to computerize its immigration record-keeping system in 1993 in an attempt, among other purposes, to track the movements of suspected drug traffickers. In addition to U.S. \$20,000 in U.S. funding in 1996 and 1997, the United States donated U.S. \$13,000 in 1998 to assist the GORM to expand this computer system with additional computers and microwave networking technology. The U.S. is also preparing to transfer some surplus U.S. Coast Guard vessels to the Maldives to enhance the Maldives' capacity to patrol territorial waters. The Maldives also participates in Colombo Plan projects.

In November 1997, the GORM established a Narcotics Control Board under the Executive Office of the President. The Board's first Commissioner, a Lieutenant Colonel, has concurrent duties as Deputy Commissioner of the Maldivian National Security Service.

The Narcotics Control Board coordinates drug interdiction activities, oversees rehabilitation of addicts, and coordinates actions of non-governmental organizations and individuals engaged in counternarcotics activities. In 1997, the GORM established the country's first drug rehabilitation center with space for several dozen clients. With the relocation of the national prison, the Narcotics Control Board gained use of that land to create a new drug rehabilitation center. The center now houses up to 300 clients at any one time, with those awaiting transfer to the center remaining under house arrest. The government launched a national counternarcotics program in 1998 and sent teams to 11 of the 19 atolls to increase drug awareness and assist with drug detection.

On September 7, 2000, the GORM became a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. The South Asian Association for Regional Cooperation (SAARC) Convention on Narcotic Drugs entered into force in the Maldives in 1993. The Drug Action Program of the Colombo Plan has conducted training for Maldivian prison authorities and other interested officials in controlling abuse of narcotics among prison inmates. No evidence exists of narcotics-related corruption in the Maldives. In 1998, the UNDCP donated computers to the NCB to assist its attempts to control precursor chemicals.

# Nepal

## I. Summary

Nepal is neither a significant producer of, 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 and abroad. Nepal's Narcotics Drug Control Law Enforcement Unit (NDCLEU) has enhanced both the country's enforcement capacity and its expertise. For information on Nepal's anti-money laundering efforts in 2001, see the Money Laundering section of this report. Nepal is a 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 Kathmandu's international airport. Local use of refined "brown" no. 3 heroin continued to increase in 2001, and there were continued reports of considerable cannabis production in Nepal for the Indian market. Abuse of locally grown and wild cannabis and hashish, marketed in freelance operations, remained widespread. Licit, codeine-based medicines continued to be abused. Nepal is not a producer of chemical precursors.

## III. Country Actions Against Drugs In 2001

**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, and consumption of most commonly abused drugs is illegal. The Narcotics Control Act, amended last in 1993, conforms in part to the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol by addressing narcotics production, manufacture, sales, import, and export. Nepal has developed, in association with the UNDCP, a master plan for drug abuse control. Nepal did not receive any UNDCP funding for the program in 2001.

Legislative action on mutual legal assistance and witness protection remained stalled in 2001, as the focus of the government has been on the Maoist insurgency. The government has not submitted scheduled amendments to its Customs Act to control precursor chemicals. Legislation on asset seizures or criminal conspiracy has not yet been drafted.

**Accomplishments.** The Government of Nepal (GON) is active in regional coordination of counternarcotics efforts and actively cooperated in international efforts to identify and arrest traffickers. Cooperation between the DEA and Nepal's NDCLEU has been excellent and has resulted in indictments both in Nepal and abroad. Nepal actively participates in the efforts of the South Asia Association for Regional Cooperation (SAARC) to combat drug trafficking and abuse.

Customs and border controls are weak along Nepal's land borders with India and China. The Indian border is open. Security measures to interdict narcotics and contraband at Nepal's regional airports with direct flights to India and at Kathmandu's main international airport are inadequate. The GON along with other governments is working to increase the level of security at the international airport, and recently the Royal Nepal Army was detailed to assist with airport security.

**Law Enforcement Efforts.** Final statistical data for 2000 and data for the first three-quarters of 2001 indicate that both destruction of cannabis in cultivation and seizures of cannabis decreased in 2001. Cannabis production remains significant; media reports claim most is bound for India. Law enforcement sources indicate that all of their seizures have been at the India/Nepal border; they have not seized any cannabis at Kathmandu's main international airport. Although larger quantities of heroin and opium were

seized in 2001 than in previous years, the absolute quantities (a total of approximately 7 kilograms) remained small. Most Nepali seizures of heroin, hashish, and opium in 2001 occurred at Tribhuvan International Airport in Kathmandu as passengers departed Nepal.

A new Department of Drug Control and Disaster Management was established under the Home Ministry in 2001 to coordinate drug control efforts. The NDCLEU falls under this Department. The NDCLEU has developed an intelligence wing, but its effectiveness remains constrained by a lack of transport, communications, and surveillance equipment. Coordination and cooperation among NDCLEU and Nepal's customs and immigration services, while still problematic, is improving. Crop destruction efforts have been hampered by the reallocation of resources to fight the Maoist insurgency.

**Corruption.** Nepal continues to lack laws to prevent and punish public corruption relating to narcotics, especially by senior government officials. However, there is no record that senior government officials have facilitated the production, processing, or shipment of narcotic and psychotropic drugs and other controlled substances or that they have discouraged or otherwise hampered the investigation or prosecution of such acts.

**Agreements and Treaties.** Nepal is party to the 1998 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1993 SAARC Convention on Narcotics Drugs and Psychotropic Substances.

**Cultivation/Production.** Cannabis is an indigenous plant in Nepal and cultivation of developed varieties is rising, particularly in lowland areas. Police have confirmed a recent Nepali newspaper report that Indian criminal elements have contributed to expanding cannabis cultivation by supplying seed and agricultural know-how, financing operations, buying, and exporting the product to India. There may be some small-scale cultivation of opium poppy, but detection is difficult since it is interspersed among licit crops. Nepali drug enforcement officials believe that all heroin seized in Nepal originates elsewhere.

**Chemical Controls.** Nepal produces no precursor chemicals. Importers of possible precursor chemicals must obtain a license and submit bimonthly reports on usage to the Home Ministry. There have been no reports of the illicit use of licensed imported chemicals.

**Drug Flow/Transit.** Narcotics seizures suggest that narcotics transit Nepal from the east and west in equal proportions. 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. There is no data clearly indicating that the United States is a final destination for drugs transiting Nepal. The GON is attempting to track changes in trafficking patterns.

**Domestic Programs (Demand Reduction).** The GON continues to implement its national drug demand reduction strategy in association with the Sri Lanka-based Colombo Plan, the United States, UNDCP, donor agencies, and NGOs.

## IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** U.S. policy is to strengthen Nepal's law enforcement capacity to combat narcotics trafficking and related crimes, to maintain positive bilateral cooperation, and to encourage Nepal to enact and implement appropriate laws and regulations to meet all objectives of the 1988 UN Drug Convention. The United States, NDCLEU, and other donor nations work together through regional drug liaison offices and through the Kathmandu Mini-Dublin Group.

**Bilateral Cooperation.** The United States works with GON agencies to implement Nepal's master plan for drug abuse control and to provide expertise and training in enforcement and policy. In 2000 the USG held a narcotics interdiction course and a regional integrity reinforcement course, each taught by the U.S. Customs Service in Kathmandu, and hosted NDCLEU officers at a regional drug enforcement school in Sri Lanka taught by the DEA. Nepal exchanges drug trafficking information with regional states, and on

occasion destination states in Europe in connection with international narcotics investigations and proceedings.

**The Road Ahead.** The United States will continue ongoing information exchanges, training, and enforcement cooperation, will work with the UNDCP to enhance the NDCLEU, will support the Colombo Plan's rehabilitation programs in Nepal, and will work with the Ministry of Home Affairs on demand reduction. The United States will encourage the GON to advance stalled drug legislation.

# Pakistan

## I. Summary

Pakistan is an important transit country for Afghan opiates and cannabis. In 2001, Pakistan's opium poppy cultivation dropped to 213 hectares (mainly grown within Khyber Agency), a 59 percent decrease from 2000. The Government of Pakistan's (GOP) cooperation on drug control with the United States is excellent. Intensive and increasingly sophisticated law enforcement efforts are led by the Anti Narcotics Force (ANF), but include a number of law enforcement agencies. Heroin seizures decreased 24 percent, mainly because of interruptions in supply from Afghanistan. Several major traffickers were arrested and convicted, and the newly established counternarcotics courts enjoyed significant success. The GOP has prevented the re-emergence of heroin/morphine processing laboratories in Pakistan. There was some progress in 2001 on the seven extradition cases of narcotics and other fugitives, which have been pending before judicial authorities for a number of years. Efforts to extend the Control of Narcotic Substances Act (CNSA) and the Anti Narcotics Force Act (ANFA) into tribal areas in the North West Frontier Province (NWFP) remain stalled. Efforts currently underway to enhance border security should help improve law and order in the tribal areas. Pakistan is a party to the 1988 UN Drug Convention.

## II. Status of Country

Pakistan has essentially achieved its ambitious goal, developed some years back, of eliminating opium production by the year 2000. The opium poppy crop fell to a record low of 213 hectares in 2001, with cultivation concentrated in inaccessible areas of Khyber Agency. Despite declining opium production in Afghanistan, trafficking of stockpiled opiates creates enormous problems for GOP border control efforts and Pakistani society. Successful interdiction operations occur, but traffickers often have superior firepower and faster vehicles, and take advantage of difficult terrain and widely dispersed law enforcement personnel to smuggle drugs through Pakistan. In recent years a steady flow of drugs has transited Pakistan, fueling domestic addiction and contributing to persistent low-level corruption. Pakistan remains an important transit country for the precursor chemical acetic anhydride, which is destined for Afghanistan's heroin laboratories. While chemical controls appear adequate, some diversion from licit imports may take place.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Having virtually achieved its goal of a poppy-free Pakistan during the year 2000, the GOP is working with the international community to consolidate the success of alternative development programs in the traditional growing areas. The U.S.-funded crop control programs in Mohmand and Bajaur Agencies will continue through 2004. The United States and Pakistan have also agreed to a multi-year alternative development program in Khyber Agency. Under the project, roads will be built in inaccessible areas within the Agency to implement alternate development schemes as well as to strengthen law enforcement.

Following the events of September 11, the United States and Pakistan have agreed to work together to further enhance border security through a U.S. \$73 million border control project. The project is aimed at strengthening security along Pakistan's border with Afghanistan by building the capacity of the law enforcement agencies and strengthening their capabilities with a package of much-needed equipment, including aircraft and training. Air mobility and appropriate unit training will permit Pakistan border security to interdict heavily armed traffickers along Pakistan's long and trackless border with Afghanistan.

The GOP issued a revised Police Ordinance 2001 to replace the outdated Police Act of 1861 as part of its effort to modernize and reform the police. Police and judicial reform will be assisted by a U.S. \$350 million loan from the Asian Development Bank.

**Accomplishments.** The most important accomplishment in 2001 was sustaining the low level of opium poppy cultivation in Pakistan. GOP officials continue to take measures to prevent the re-emergence of heroin or morphine base laboratories. Five special narcotics courts established in 2001 have produced remarkable results despite limited resources. As of October 30, 2000, 1,050 ANF cases pending in various courts of law were transferred to the special narcotics courts. In less than one year, the special narcotics courts decided 400 outstanding cases, with a 92 percent conviction rate. Thirty-two defendants in those cases received the death penalty.

**Law Enforcement Efforts.** The ANF is Pakistan's leading narcotics law enforcement agency. Despite efforts to address staffing shortfalls, the ANF remains critically short of personnel, operating with 1,538 out of an authorized personnel strength of 2,558, 40 percent short of authorized strength. Army and police personnel are currently assigned to the ANF for three-year tours of duty. Specialized training and the formation of a Special Investigative Cell (SIC) or "Vetted Unit," targeting major trafficking organizations have boosted morale. With the addition of 15 new members in 2001, the SIC now has a total strength of 44 personnel. The SIC's performance continues to steadily improve with increasingly sophisticated operations against international drug trafficking organizations.

Pakistan's illicit drug seizures during 2001 were down from the previous year. During the first ten months of 2001, 6.0 metric tons of heroin, 4.7 metric tons of opium, and 53 metric tons of hashish were seized. These figures compare to 7.8 metric tons of heroin, 7.9 metric tons of opium, and 112.0 metric tons of hashish seized in 2000. ANF-Baluchistan, covering major trafficking routes from Afghanistan, brought in record hauls of narcotics. Apart from the ANF, other law enforcement agencies tallying significant drug seizures were the police, the Coast Guard, and the Frontier Corps, Baluchistan. The United States continues to encourage better interagency coordination between these agencies. Customs offices at Pakistan's international airports have been increasingly effective in interdicting heroin couriers of all nationalities belonging to foreign trafficking organizations, many with a Nigeria connection, mostly traveling to the Middle East, Bangladesh, and Thailand.

For 2001, total frozen drug traffickers' assets stood at U.S. \$78.72 million. A total of U.S. \$6.43 million in property belonging to convicted drug traffickers has been forfeited.

Arif Baloch, an ally of former senator Asif Ali Zardari, the husband of ex-Prime Minister Benazir Bhutto, was sentenced to death in a case involving the smuggling of 2.4 tons of hashish on January 26, 2001. The trial of alleged drug trafficker Munawar Hussain Manj, a former member of Pakistan's National Assembly, was concluded successfully after five years of proceedings. Manj and two of his partners received death sentences on August 10, 2001. They have also each been fined U.S. \$16,000. The case of Rahmat Shah Afridi, owner of an English language daily and an influential politician from NWFP arrested in early 1999, also concluded successfully. Afridi received two death sentences, one for each of two counts of drug trafficking. The court also assessed a fine of U.S. \$16,000 on each count. His co-defendants Abdul Malik and Missal Khan were sentenced to life imprisonment and each was fined U.S. \$4,000. The outcome of these cases testifies to the ANF's ability to prosecute politically powerful traffickers, and is encouraging, as it promises a departure from effective impunity for many politically influential and wealthy violators in the past.

Despite the success of the new narcotics courts, the prosecutions of most criminal cases in Pakistan are still protracted. Corruption and low salaries threaten the integrity of law enforcement and judicial institutions throughout Pakistan. Judges grant long continuances; defendants file delaying interlocutory appeals; witnesses are reluctant to testify; and bribery can influence case outcomes. To expedite cases through the court system, the ANF still needs to strengthen its law directorate.

**Corruption.** Corruption is a problem throughout Pakistani society, and a particular issue in government administration. To check official corruption more effectively, the President of Pakistan promulgated the National Accountability Bureau (Amendment) Ordinance 1999. On April 24, 2001, the Supreme Court of Pakistan dismissed constitutional challenges to the NAB ordinance. Special accountability courts, established in 1999, performed well in 2001. The courts achieved an 86 percent conviction rate in corruption cases against politicians and civil servants.

The United States has no evidence that the GOP and its senior officials 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. With government salaries low and small and large-scale corruption involving smuggled consumer goods endemic, some narcotics-related corruption almost certainly occurs. In 2001, the GOP continued to pursue cases of corruption involving senior politicians and bureaucrats. Another milestone was reached in the GOP's campaign to curb corruption with the extradition of former Pakistan Navy Chief Admiral Mansoor ul Haq from the United States to Pakistan in a case involving corruption. An accountability court under the NAB Act is trying ul Haq.

**Agreements and Treaties.** Pakistan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 Convention on Psychotropic Substances. The United States is providing counternarcotics/anticrime assistance to Pakistan under a letter of agreement that provides for cooperation in the areas of opium poppy eradication, narcotics law enforcement, and drug demand reduction. Extraditions are carried out under the terms of the 1931 U.S.-U.K. Extradition Treaty, which continued in force with Pakistan following its independence. Several pending U.S. extradition requests have been awaiting court action for many years. Lack of action on those requests by the GOP continues to be a serious problem in the U.S.-Pakistan law enforcement relationship.

Pakistan has signed bilateral narcotics agreements with Iran, the United Arab Emirates, Kyrgyzstan, Uzbekistan, China, and India. Pakistan also is a party to the World Customs Organization's International Convention for the Prevention, Investigation and Repression of Customs Offenses (Nairobi Convention), Annex-X on Assistance in Narcotics Cases. Pakistan signed the UN Convention against Transnational Organized Crime in December 2000.

The governments of Pakistan and Iran and the UNDCP signed a memorandum of understanding (MOU) on narcotics cooperation in May 1994. Under the MOU, the UNDCP has implemented a law enforcement project with both governments, designed to encourage cooperation on interdiction and improve narcotics law enforcement. Under an extended 1994 MOU, Pakistani and Iranian counternarcotics officials exchange information on narcotics trafficking and cooperate on cross border narcotics trafficking interdictions. Since 1994, counternarcotics officials of both India and Pakistan have regularly met to discuss operational cooperation and cross border flows of precursor chemicals.

**Cultivation/Production.** Two hundred thirteen (213) hectares (ha) of opium poppy were cultivated in the NWFP in 2001, compared to 515 ha in 2000. Most of the remaining cultivation took place in the Bara River Valley of Khyber Agency, on the border of Afghanistan's Nangarhar province. The United States estimated potential opium production for 2001 at five metric tons, compared to 11 metric tons in 2000.

Both Afghan-origin cannabis and opiates transit through Pakistan. Afghanistan produced an estimated 1,685 metric tons of opium in 2001. Afghan opiates trafficked to Europe and North America enter Pakistan's Baluchistan and NWFP provinces and exit either through Iran or Pakistan's Makran coast, or through international airports located in Pakistan's major cities. Traffickers also transit land routes from Baluchistan to Iran and from the tribal agencies of NWFP to Chitral, where they re-enter Afghanistan at Badakhshan province for transit through Central Asia. One of the major seizures made this year was a seizure of one ton of opium by the ANF in Zamran Pass near the Pakistan-Iran border in Baluchistan.

Some of the decline in seizures may be attributable to the reduction in drug production in Afghanistan in 2001. Intensive counternarcotics efforts by the Government of Iran have forced traffickers to find

alternative routes, increasing the pressure on routes through Central Asia. The GOP estimates its addict population could consume as much as 126 metric tons of opium a year. Pakistan is a major consumer of Afghan opium, although the majority of the heroin smuggled out of Southwest Asia through Pakistan continues to go to the European market, including Russia and Eastern Europe. The balance goes to the Western Hemisphere and to Southeast Asia where it appears to supplement opium production shortfalls in that region. Couriers intercepted in Pakistan this year were en route to Africa, Nepal, Europe, Thailand, and the Middle East.

As a result of coalition military activity in Afghanistan, traders sought to dispose of some stockpiled opium. As a result considerable quantities of opium and poppy gum were smuggled into and out of Pakistan. Correspondingly, the rate of seizures in Baluchistan shot up during October 2001.

**Domestic Programs (Demand Reduction).** There is little reliable information available regarding the extent of drug addiction within Pakistan. The UNDCP has presented a draft of the results of its recently concluded Rapid Assessment Survey to the Government of Pakistan for its approval. There are indications that the updated survey will show that the number of addicts had previously been overestimated. Although the GOP attached great importance to attacking its drug abuse problem in 2001, the GOP allocated little funding to expand the country's woefully inadequate drug treatment facilities and to raise awareness of the issue. The UNDCP has agreed to fund 16 drug treatment and rehabilitation centers throughout Pakistan to treat hardcore and other addicts.

#### IV. U.S. Policy Initiatives and Programs

U.S. counternarcotics policy objectives for 2002 are to encourage the GOP to eliminate remaining pockets of opium poppy cultivation; to increase interdiction of opiates from Afghanistan; to dismantle major trafficking organizations; to enhance cooperation regarding the extradition of narcotics fugitives; to encourage GOP efforts against white collar crime such as money laundering and to strengthen the security of its borders along Afghanistan.

**Bilateral Cooperation.** The United States provided U.S. \$3.47 million in narcotics control assistance to Pakistan in 2001. This amount included U.S. \$1 million for the Khyber Area Project and \$700,000 from DEA funds for the Special Investigative Cell (SIC) within the ANF. In addition to narcotics law enforcement, the United States continues to fund crop control projects in Mohmand and Bajaur and public awareness projects in support of Pakistan's demand reduction efforts.

The ANF continues to cooperate effectively with DEA to raise investigative standards. The creation of the SIC, trained and equipped by the United States, represents an important milestone in improving GOP counternarcotics efforts. The SIC targets major drug trafficking organizations and has already established an outstanding track record. Given its track record of success, GOP and United States officials expanded the SIC during 2001. Strengthening inter-agency cooperation and security of borders remains a priority, particularly in Baluchistan and the NWFP. U.S.-funded crop control projects in NWFP's Mohmand and Bajaur agencies have contributed to the near elimination of poppy cultivation since 2000. Remaining cultivation within Mohmand and Bajaur is negligible.

Pakistan also received counternarcotics assistance from other sources in 2001. Principal among these sources was UNDCP. A three-year, U.S. \$5.2 million UNDCP-funded narcotics law enforcement program started in 1999 is progressing well, with donors' support complementing U.S. bilateral assistance. The United States is the major contributor to UNDCP counternarcotics programs in Pakistan. The UNDCP also supports an enforcement project furthering counternarcotics cooperation between Iran and Pakistan, has upgraded three forensic laboratories to test narcotics, and supports the GOP's efforts to enforce narcotics laws within Pakistan's tribal areas. The UNDCP conducted a survey of Pakistan's addict population to determine baseline information on drug abuse. Results of the survey are being used to make drug demand reduction programs more effective.



The United States plans to assist GOP efforts to strengthen the security of its borders with Afghanistan under the Border Security Project. This U.S. \$73 million project is being funded by the United States and will provide aviation and ground equipment support to various law enforcement agencies deployed along Afghanistan's border with Pakistan.

**The Road Ahead.** The United States will continue to work closely with the GOP to target major heroin trafficking organizations and increase seizures of large shipments of opiates, particularly those transiting through coastal areas of Baluchistan and precursor chemicals. The SIC will play an important role in this strategy. The United States will continue to encourage GOP efforts to consolidate the gains made in the crop control program and to sustain the enforcement of law within poppy growing areas in the Mohmand and Bajaur agencies. An area development project replicating the models of Mohmand and Bajaur will be implemented within the Khyber Agency. The United States will continue to work with the GOP to expedite extradition requests and to strengthen Pakistan's ability to attack money laundering. The United States will continue efforts to enhance maritime enforcement with the Maritime Security Agency, Coast Guard, Customs, ANF, and countries in the region affected by narcotics trafficking from Afghanistan.

# Pakistan Statistics

(1993–2001)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Opium</b>									
Potential Harvest (ha)	213	515	1,570	3,030	4,100	3,400	6,950	7,270	6,280
Eradication (ha)	1,484	1,704	1,197	2,194	654	867	0	463	856
Cultivation (ha)	1,697	2,219	2,767	5,224	4,754	4,267	6,950	7,733	7,136
Potential Yield (mt)	5	11	37	65	85	75	155	160	140
<b>Seizures</b>									
Opium (mt)	4.7	7.84	16.32	5.02	8.54	8.08	215.52	14.36	4.40
Heroin (mt)	6.0	7.41	4.98	3.33	5.07	4.05	18.04	6.20	3.9
Hashish/Marijuana (mt)	53	108.16	81.46	65.33	108.50	201.55	543.58	178.29	189.00
Labs Destroyed	0	0	2	0	4	10	15	18	13
Acetic Anhydride (ltr)	0	43	422	10,000	5,383				
<b>Arrests</b>	TBD	35,969	45,175	37,745	50,565	51,119	59,081	48,296	39,763
<b>Users (thousands)</b>									
Opium/Heroin	TBD						196	1,080	1,080
Opium (since 1995)	TBD	126	118	110	103	96			
Heroin (since 1995)	TBD	2,280	2,131	1,992	1,862	1,740			
Cannabis	TBD	1,307	1,222	1,142	1,068	998	1,745	1,000	1,000
Other Drugs	TBD	506	473	442	413	386	485	50	50

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# Sri Lanka

## I. Summary

Sri Lanka has a comparatively modest drug problem. The government maintains a solid counternarcotics effort, including a strong nationwide demand reduction program. The U.S. Government has a close relationship with the Sri Lanka Government on counternarcotics issues. Supported by the U.S. Embassy, efforts at public education on drug abuse continued during the year. The country remained a strong, effective regional player in counternarcotics cooperation. The government continued to make available to other countries in the South Asian Association for Regional Co-operation (SAARC) a U.S.-funded database on narcotics arrests and related information. Implementation of the counternarcotics master plan, begun in 1994, remained a focus of governmental attention. Cannabis eradication and seizures increased from 2000, but the number of drug-related arrests decreased. Meanwhile, heroin seizures were roughly equivalent to the 2000 rate. Sri Lanka has signed the 1988 UN Drug Convention, although its Parliament still had not considered the implementing legislation for the Convention as of the end of 2001. The government also had not submitted legislation on the control of precursor chemicals as of the end of the year. The continued conflict with the LTTE (Liberation Tigers of Tamil Eelam) and election-related political disturbances drew police personnel away from counternarcotics duties in 2001.

## II. Status of Country

Although Sri Lanka has a comparatively modest drug problem, a slight but steady increase in narcotics consumption—particularly heroin—continued in 2001. The Ministry of Defense (MOD), under whose jurisdiction the police serve, has overall responsibility for all counternarcotics and demand reduction activities, and has generally done a solid job on counternarcotics issues. The ongoing conflict with the LTTE organization, however, drains most of the Ministry's resources, leaving limited personnel, time, and funding to address the drug problem. The conflict absorbs the attention of Sri Lanka's Naval Forces and prevents the adequate patrol of Sri Lanka's long coastline, particularly along the western shore away from the areas of conflict. The island's use as a transshipment point for narcotics from South and Southeast Asia has grown somewhat in recent years, although evidence suggests that few of these drugs reach the United States. Police officials in the southern Indian state of Tamil Nadu continued to report drug smuggling activities among Sri Lankan Tamil refugees living there and expressed concern that much of the drug trafficking in southern India in 2001 was destined for Sri Lanka for transshipment. Many believe, moreover, that the LTTE helps finance its insurgency through drug trafficking. Neither the Embassy nor the Police Narcotics Bureau (PNB) has any evidence to support this suspicion.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** During 2001, the government continued to implement a counternarcotics master plan developed in 1994 in consultation with the UNDCP. At the end of the year, the government had not finished reviewing and had not yet submitted to Parliament a comprehensive counternarcotics legislative package drafted by the National Dangerous Drugs Control Board (NDDCB), the government agency responsible for coordinating national drug policies. The package includes a ban on precursor chemicals and narcotics-related money laundering, as well as implementation of the 1988 UN Convention and 1990 SAARC Convention on Narcotics Drugs and Psychotropic Substances. Despite delays in its review process, the government continues to indicate that the comprehensive package will make its way through Parliament in 2002.

**Cultivation/Production.** The only illicit narcotic that Sri Lanka produces is cannabis, and Sri Lanka's production has little, if any, effect on the United States. Most cannabis cultivation occurs in heavy jungle

in the southeastern part of the island, adjacent to areas of conflict. Police have a difficult time locating and destroying cannabis plots, due to staffing limitations brought on by the conflict and the location of the fields. Through November 30, 2001, the police had destroyed 17,600 kilograms of cannabis as part of its field eradication program.

**Domestic Programs (Demand Reduction).** The government has an excellent record on demand reduction. The NDDCB continued its aggressive, nationwide public education campaign, which included a weekly radio program called “The Friendship Society” 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; and treatment programs at residential treatment centers. A family-based prevention/treatment program begun in 1994 continued in 2001. The number of people utilizing rehabilitation centers continued to increase. The Colombo Plan supported several local organizations that train volunteer drug counselors. The Colombo Plan also provided programs on demand reduction website development.

**Law Enforcement Efforts.** In terms of regional counternarcotics cooperation, Sri Lanka plays a major role. A computer program developed by the Police Narcotics Bureau and funded by the U.S. Government hosts a regional database of narcotics arrests in the region. Law enforcement agencies throughout SAARC have access to the database, although the Sri Lankan Government is the only country to use it regularly. The NDDCB takes the lead in drafting legislation and encouraging regional cooperation on precursor control and in 2000 drafted a voluntary code of conduct for legal precursor chemical importers; as of late 2001, the private sector has not yet adopted the code formally. The NDDCB did not propose any additional items of legislation in 2001.

During 2001, the Drug Advisory Program (DAP) of the Colombo Plan (a regional organization headquartered in Sri Lanka) conducted a series of successful counternarcotics-related training programs in the region, some of which the U.S. Government funded. DAP programs included “train-the-trainers” conferences and demand reduction Web site development.

The Police Narcotics Bureau, the Customs Service, and the Department of Excise share responsibility for discouraging cannabis production. Total seizures of cannabis increased in 2001 to 34.76 metric tons (vice 20.8 metric tons in 2000, 80.0 metric tons in 1999, and 24.7 metric tons in 1998). The PNB reported arrests of 8,593 people on drug-related charges through November 2001. This compares with full-year figures of 12,600 arrested in 2000; 15,875 arrested in 1999; and 13,867 arrested in 1998. The PNB attributes the decrease in arrests to staff reductions in 2001 caused by new deployments related to the war and to election-related activities. Through November 2001, most of those arrested for narcotics-related offences had their cases referred to the Attorney General’s Office for prosecution.

**Corruption.** Although there were unconfirmed rumors of bribery of low-level government officials by narcotics dealers in 2001, there was no evidence that public officials engaged in narcotics trafficking in 2001. The government in 1994 set up a permanent commission to investigate charges of bribery and corruption against public officials. After a period of relative inactivity, the commission was functioning in 2001, but no narcotics-related corruption cases were reported.

**Agreements and Treaties.** Sri Lanka is a party to the 1988 UN Drug Convention and the 1990 SAARC convention on Narcotic Drugs and Psychotropic Substances. Implementing legislation for both conventions, drafted in 1997, still had not reached Parliament by the end of 2001. The draft legislation includes specific provisions for extradition for narcotics-related offences. Sri Lanka is a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1971 Protocol amending the Single Convention on Narcotic Drugs. The 1999 signing of a new general extradition treaty between Sri Lanka and the United States will make extradition between the two countries easier. The treaty generally authorizes the extradition of nationals of both countries. Both the United States and Sri Lanka ratified the treaty in 2000, and it entered into force in January 2001. Sri Lanka has also signed the United Nations Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

Sri Lanka has also signed the World Customs Organization (WCO) and the International Convention on Mutual Administrative Assistance for the Prevention, Investigation and Repression of Customs Offences (the Nairobi Convention).

**Drug Flow/Transit.** Heroin transits Sri Lanka in significant quantities, although there is no evidence that heroin that transit Sri Lanka has a significant effect on the United States. In 2001, the PNB detected and seized several heroin shipments from India at Colombo's international airport. The PNB regularly stresses the coast's vulnerability to transshipments of heroin from India. Sri Lanka has no Coast Guard, while operations against the LTTE absorb the attention of the country's naval vessels. This lack of seagoing capability hinders interdiction efforts.

Evidence suggests a growing trend in transshipment of heroin from India through Sri Lanka. In mid-2001, Indian government officials seized 60.4 kilograms of heroin in Tamil Nadu. It is believed that the heroin was going to be transshipped to Sri Lanka. One Sri Lankan national and several Indians were arrested. In June 2000, counternarcotics officials in Tamil Nadu arrested four Indian nationals transporting 20 kilograms of high-purity cocaine bound for Sri Lanka, presumably for transshipment. In October and November 1999, the Indian Narcotics Control Bureau (NCB) arrested Sri Lankans operating heroin trafficking operations in India and seized 100 kilograms of heroin marked for shipment to the island. NCB officials believe much of the heroin seized in southern India each year (amounting to hundreds of kilograms) would have eventually reached Sri Lanka. Doubts about whether the island's relatively small number of heroin users can absorb the quantities of heroin entering the country strongly suggest transshipment elsewhere. By December 2001, however, there had been no reports of any narcotics seizures identified as having been transshipped from Sri Lanka to international points.

In previous years, the U.S. Government assisted several Sri Lankan organizations in their counternarcotics efforts. In 1998, the U.S. Government provided about U.S. \$7,000 to the NDDCB, Federation of Nongovernmental Organizations Against Drug Abuse (FONGOADA), and Sri Lanka Anti-Narcotics Association (SLANA) for equipment purchases. In August 2000, more than 30 participants from narcotics enforcement agencies in four countries attended a counternarcotics investigative techniques course in Colombo funded by the U.S. Government and conducted by the DEA. Sri Lankan police and customs officials have also benefited from equipment and training funded by the Dutch, British, and German governments.

#### IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** The U.S. Government has a close relationship with the Sri Lankan Government on counternarcotics issues. For example, it works with Sri Lankan counternarcotics organizations in support of their efforts to promote awareness of the dangers of narcotics among the general population. In addition to providing occasional material and financial support, the U.S. Embassy in Sri Lanka has participated actively in community awareness seminars. The U.S. Government hopes to advance self-sufficiency and cooperation among law enforcement and other government officials working on narcotics issues in Sri Lanka and the region. The United States supported regional efforts by providing over U.S. \$500,000 to the Colombo Plan's drug advisory program in 1998 and 1999. During 2000, the United States provided U.S. \$200,000, and in 2001 provided another \$200,000, with additional funding given on a program-by-program basis.

**Bilateral Cooperation.** Bilateral cooperation between Sri Lanka and the United States is strong. Use of the U.S. Government-funded regional database on drug arrests, investigations, and other information for SAARC law enforcement agencies, which became fully operational in 1995, continued throughout 2001, despite concerns about the system's effectiveness due to lack of information sharing by all countries in the region. NDDCB officials conducted their outreach, preventive education, and training programs effectively in 2001 with the help of audio-visual equipment provided by the U.S. Government in previous years. The participation of a U.S. Embassy officer at drug prevention seminars helped provide publicity for those events, including newspaper coverage.

**The Road Ahead.** U.S. Government officials will continue to work with Sri Lankan counternarcotics organizations whenever possible, particularly by speaking at or otherwise participating in seminars addressing the drug problem.

# **SOUTHEAST ASIA**





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# Australia

## I. Summary

Australia is a committed partner in international efforts to combat illicit drugs. Australia is a consumer, rather than a producer, of illicit drugs. There is no evidence of significant narcotics shipments destined for the U.S. that transit 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. In 2001, a trial “Harm Reduction” facility for injecting heroin opened in Sydney; funding for a similar project in Canberra has been frozen pending a referendum. Australia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Cannabis is the most widely used illicit drug in Australia. A 1998 survey for Australian Institute of Health and Welfare (AIHW) found that nearly 40 percent of Australians over the age of 14 had used the drug at least once, with 17 percent having used it in the last 12 months. According to the survey, 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. Australia has also seen a growth in the use of the synthetic drug MDMA (ecstasy): a survey by the National Drug and Alcohol Research Center (NDARC) found that 20 percent of men surveyed ages 20-29 and 10 percent of women in that age group had tried the drug.

Heroin use is rising in Australia. In the 1998 AIHW survey, 2.2 percent of all Australians reported using heroin, 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. State legislation was passed in two jurisdictions allowing for medically supervised heroin injecting rooms where clean needles are provided and users are not prosecuted for drug offenses. A trial injecting facility opened in 2001 in Sydney; funding for a similar project in Canberra has been frozen pending a referendum.

## III. Country Action Against Drugs in 2001

**Policy Initiatives.** The government’s comprehensive drug strategy remains the “Tough on Drugs” program first announced by Prime Minister John Howard in 1997. According to the Prime Minister’s office, more than U.S. \$250 million has been spent on implementation of the strategy since its inception. Because both the federal and state governments have a role in drug policy, laws and punishments vary across Australia.

In 2001, the Prime Minister launched a National Illicit Drugs Campaign that committed the equivalent of U.S. \$13.5 million to drug education programs for schools, U.S. \$55 million to establishing a compulsory education and treatment system for drug offenders and U.S. \$106 million to stop trafficking and dealing in illegal drugs.

**Law Enforcement Efforts.** Law enforcement agencies continued aggressive counternarcotics law enforcement activities in 2001. Responsibility for these efforts is divided between the federal and state governments, with the various law enforcement agencies generally working well together.

According to a report from Australian Customs, from July 2000 to June 2001, Customs seized 427 kilograms of cocaine, 216 kilograms of heroin, and 338 kilograms of ecstasy. The most significant seizures of 2001 were a one metric ton shipment of cocaine seized in Western Australia in July and, in August, 2.5 kilograms of heroin. Two Americans were charged in connection with the large cocaine seizure along with several Colombians. Press reports indicated that one of the Americans pleaded guilty and was awaiting sentencing in mid-January 2002. A joint National Crime Authority, Australian Federal Police (AFP) and Customs operation also seized Australia’s largest shipment of ecstasy ever: 124 kilograms in December

2001. In a report issued in March 2001, the Australian Bureau of Criminal Intelligence (ABCI) reported that between July 1, 1999 and June 30, 2000, federal and state and territory enforcement authorities seized 734.7 kilograms of heroin and 6 kilograms of other opioids, 839 kilograms of cocaine, and 381 kilograms 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, including the DEA and FBI.

**Corruption.** The Australian government is vigilant in its efforts to prevent narcotics-related corruption. There is no indication of any senior official of the government facilitating the production or distribution of illicit drugs or aiding in the laundering of proceeds from illegal drug transactions. In 2001, a number of New South Wales police officers were convicted on drug-related charges.

**Agreements and Treaties.** Australia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The U.S. and Australia cooperate in law enforcement matters under a bilateral mutual legal assistance treaty and an extradition treaty. The U.S. has concluded a customs mutual assistance agreement with Australia. Australia signed the UN Convention against Transnational Organized Crime in December 2000.

**Cultivation/Production.** The only significant illicit crop cultivated in Australia is cannabis, which remains at less than 5,000 hectares throughout the country. There is no evidence that Australian illicit marijuana production reaches the U.S. in quantities sufficient to have a significant affect. Australia has a significant licit opium crop, primarily in the state 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. 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 U.S. counternarcotics activities 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. 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 continue to enjoy excellent bilateral relations with Australia on the counternarcotics front and the two countries should work well together in the UNDCP and other multilateral fora.

## Brunei

Brunei is not a major consumer, producer, or transit country for narcotics, but it is possible that narcotics traffickers use Brunei's waterways to ship narcotics around the region. There has been an apparent shift to the use of boats as the primary means of smuggling narcotics into Brunei. Brunei's borders of coastline, rivers, and dense jungle are porous, and smuggling is common. The majority of this smuggling activity involves alcohol, illegal day-laborers, and food products. Brunei is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol.

Methamphetamine remains the illegal drug of choice in Brunei, and no other drugs were seized in significant quantities in 2001. Through the end of November, 505 drug-related arrests had been made in Brunei. A total of 383 grams of methamphetamine were seized during this period. Methamphetamine use in Brunei seems to be increasingly concentrated among unemployed Malay youth, and drug use among unemployed Brunei youth is increasing.

Brunei has stiff penalties for drug offenses. Possession of 200 grams of methamphetamine, for example, invokes a mandatory death penalty. There is some sentiment for reducing this threshold so that possession of even 50 grams would require the death penalty. Criminals operating in and around Brunei are becoming increasingly sophisticated in their operations. Brunei has recently increased its counternarcotics budget and will be devoting a large share of these resources to enhancing its enforcement manpower and purchasing speedboats for maritime interdiction.

The level of corruption within the GOB is relatively low. Government employees in oil-rich Brunei are generously compensated, and they are not subject to the pressures and temptations of poorer developing countries. In 2001 the NCB and other GOB law enforcement agencies actively participated in regional training opportunities. NCB officers attended a DEA money-laundering seminar in Singapore. The NCB and other Brunei law enforcement personnel regularly attend training at the International Law Enforcement Academy (ILEA) Bangkok. In 2001, some 55 GOB personnel attended training at the ILEA in Bangkok.

Brunei has recently implemented asset forfeiture and seizure legislation. Because seized assets are returned to the general treasury, they do not provide an incentive to the agency that confiscated them. However, the NCB managed to obtain one speedboat through asset forfeiture in 2001 for use in counternarcotics operations.

**The Road Ahead.** The United States will continue to encourage Brunei to maintain vigilance on narcotics abuse and traffic, and it will endeavor to assist Brunei with training in both enforcement and demand reduction and drug treatment.

# Burma

## I. Summary

With the ban on opium production in Afghanistan imposed by the Taliban in 2001, Burma returned to its position as the world's largest producer of illicit opium. Burma is the primary source of amphetamine-type stimulants in Asia, producing an estimated 800 million tablets per year. The government of Burma has done little to stop the production of and trafficking in amphetamine-type stimulants (ATS) produced within its borders. According to the joint U.S./Burma opium yield survey, opium production in Burma totaled no more than 865 metric tons in 2001, down more than 20 percent from a year earlier, and barely one-third of the 2,560 metric tons produced in Burma in 1996. Burma's opium is grown predominantly in Shan State, in areas controlled by former insurgent groups. Since the mid-1990s, however, the Burmese government has elicited "opium-free" pledges from each group and, as these pledges have come due, has stepped up law-enforcement activities in the territories controlled by these groups. The government of Burma has not put pressure on or taken law-enforcement action against the largest drug-producing and drug-trafficking organization, the United Wa State Army, however.

Burma has taken some useful counternarcotics measures in 2001, but they are too limited in duration and scope to have had a significant impact on the overall narcotics situation thus far. Over the past year, the Burmese government has also considerably improved its counternarcotics cooperation with neighboring states. In 2001 in cooperation with the government of China and with the government of Thailand, the Burmese government launched a major law-enforcement campaign against the Kokang Chinese. The government made several drug seizures and arrested several traffickers, including an action resulting in the destruction of a trafficking group that the Chinese called one of the largest "armed drug smuggling groups in the Golden Triangle area."

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 returned to its position as the world's largest producer of illicit opium in 2001. Even though farmers attempted to increase opium poppy cultivation levels during the 2000/2001 growing season, however, poor weather and eradication continued to depress cultivation levels. According to the joint U.S./Burma opium yield survey, the total land area under poppy cultivation in Burma was 105,000 hectares in 2001, a 3 percent decrease from the 108,700 hectares under cultivation in 2000. In 2001 potential opium production in Burma dropped below 1,000 metric tons for the first time since the surveys begun in the mid-1980s. Estimated opium production in Burma totaled approximately 865 metric tons in 2001, a decrease of more than 20 percent from 1,085 metric tons a year earlier, and barely one-third of the 2,560 metric tons produced in Burma in 1996. In 2001, yields in Burma (approximately 8.5 kilograms/hectare) were barely half the level recorded five years earlier, while the acreage under cultivation was down 35 percent.

Although the decline in opium cultivation is to be applauded, Burma remains the major source of amphetamine-type stimulants (ATS) in the region. An estimated 800 million ATS tablets are produced annually in Burma, primarily in the areas of Shan State controlled by the United Wa State Army. With the exception of seizing modest amounts of tablets and closing a few production labs, the government of Burma has not made a concerted effort to stop ATS production and trafficking. The amount of ATS tablets seized over the past three years represent only a small fraction of annual ATS production and has no real effect on the overall scope of the problem.

Opium, heroin, and ATS are produced predominantly in Shan State, in areas controlled by former insurgent groups. Starting in 1989, the Burmese government negotiated a series of cease-fire agreements with these groups, allowing each limited autonomy and a measure of development assistance in return for peace. Initially, these agreements permitted the former insurgents to continue their narcotics production and trafficking activities in relative freedom. Since the mid-1990s, however, the Burmese government has elicited “opium-free” pledges from each and, as these pledges have come due, has stepped up law-enforcement activities in the territories controlled by some of these groups. In 2001, the Burmese government cracked down hard in the Kokang region controlled by Peng Jiasheng’s Myanmar National Democratic Alliance Army (MNDAA), which had pledged to be opium-free by 2000. With the assistance of the Government of China, the Burmese government staged a series of arrests of major traffickers in all areas of the Kokang, including Laukkai, the capital of Kokang State.

In other areas, the GOB moved more cautiously. In areas controlled by the United Wa State Army (UWSA), the principal drug-producing and drug-trafficking organization in Burma, the government has only slowly expanded its administrative presence, but has not yet attempted any aggressive law-enforcement operations comparable to those it has staged in the Kokang region. Apparently, there are two reasons for this: First, the Wa pledge to make their territories opium-free does not come due until 2005. Second, and more important, the government of Burma claims that cracking down on the Wa, a far more formidable militarily force than the Kokang Chinese, jeopardizes Burma’s national security. Under the terms of the cease-fire agreements, the Wa and other groups involved in the drug trade are largely immune from government action. For instance, Burmese troops cannot enter Wa territory without permission from the UWSA. Although unwilling to risk confronting the Wa, a potent organization with a well-manned and well-trained military force, the GOB did take the modest steps of establishing a police presence in the Wa territories in 2001 and, in December 2001, opened its first military intelligence office in the Wa territories. The government has yet to put significant pressure on the Wa to stop illicit drug production or trafficking.

Although the ethnic groups have set dates by which to be opium free, the results have been limited. Opium production and its profitability have not been replaced by substitute crops and alternative development projects that would provide farmers economically viable alternatives to poppy cultivation. For regions to become truly drug free, the GOB must make a considerable commitment, assisted, where possible, by the international community, to undertake an extensive range of counternarcotics actions, including crop eradication, effective law enforcement, and alternative development. The GOB must foster cooperation between the government and the ethnic groups involved in drug production and trafficking, including the Wa, to eliminate poppy cultivation and opium production.

The GOB must also address the explosion of ATS that has flooded Thailand and is trafficked to other countries in the region. It must make a firm commitment and make a concerted effort to stop production of ATS by gaining support and cooperation from the ethnic groups, including the Wa, involved in ATS, as well as through closing production labs and preventing the diversion of precursor chemicals needed to produce synthetic drugs.

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 difficult to measure accurately. Burma has an under-regulated banking system and ineffective laws to control money laundering. In 2001 the GOB drafted new anti-money-laundering legislation, but the laws will not become effective until sometime in 2002.

Drug abuse—including intravenous drug use—continues to be a growing problem in Burma. While the government maintains that there are only about 90,000 addicts in Burma, surveys conducted by UNDCP, among others, suggest that the addict population could be as high as 500,000. There is also a growing HIV/AIDS epidemic, linked in part to intravenous drug use. According to surveys, 57 percent of all intravenous drug users in Burma have tested positive for the HIV/AIDS virus.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In 2001, the GOB demonstrated a new commitment, particularly in cooperation with China and Thailand, to take more aggressive law-enforcement actions against individual traffickers and some trafficking groups, notably the Kokang Chinese. The government introduced no new counternarcotics policies, however, and continued to exert little direct pressure on the UWSA and other major trafficking organizations. There was no evident attempt to seize drugs or close heroin or ATS labs in Wa-controlled territories. Drug seizures throughout Burma were roughly equal to or below the levels of previous years, and few production labs were destroyed.

Burma's official counternarcotics plan calls for the eradication of all narcotics production and trafficking over a fifteen year period, starting in 1999. The plan is to proceed by stages, with eradication efforts coupled to alternative development programs in individual townships, predominantly in Shan State. Altogether, 54 townships have been targeted, 25 of which are targeted for the first five years of the program. In its first progress report, the government stated in September 2001 that programs had been started in 22 of the 25 townships. They include Mong Ko, Laukai, Hopang, and Kyu Hkok, all of which lie within regions controlled by the Wa and the Kokang Chinese. According to the government, 1.3 billion Kyats (equivalent to approximately \$1.8 million at the unofficial exchange rate of Kyat 700 per U.S. dollar, or \$20 million at the official rate of 6.5 kyat per U.S. dollar) was spent on health, education, and alternative development projects in these 22 townships during the 1999-2000 fiscal year. The scope and effectiveness of this plan to date has not been independently verified.

Small alternative development and crop substitution programs supported with international assistance continue in Burma. The most significant is the Wa Alternative Development Project (WADP) implemented by the UN Drug Control Program (UNDCP) and supported by contributions to the UN by the United States and Japan. A five-year, \$12.1 million program, the WADP identifies substitute, economically viable crops to replace opium cultivation in a region of the Wa territories. There is also an ongoing program funded by Japan to establish buckwheat as a cash crop in the Kokang and Mong Ko regions of northeastern Shan State. In addition, the Thai government has recently agreed to extend its own alternative development projects across the border into the Wa-controlled Southern Military Region of Shan State.

Burma improved cross-border law-enforcement cooperation with both China and Thailand in 2001 to curtail the production and trafficking activities of former insurgent groups.

The Burmese Government refused the U.S. request to expel drug lord Chang Qifu (Khun Sa), asserting that there is no valid extradition treaty between the U.S. and Burma. Burma takes the position that the 1931 U.S.-U.K. extradition treaty is not applicable and contends the treaty was never accepted by any Burmese government. The Burmese government also continued to refuse to render Chang Qifu to the U.S. on the grounds that he had not violated his 1996 surrender agreement. That 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 and exemption from 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.

**Accomplishments.** Narcotics Seizures and Arrests: Summary statistics provided by the Burmese police indicate that the Burmese police, army, and the Customs Service together seized approximately 1,629 kilograms of raw opium, 98 kilograms of heroin, and 32.4 million ATS tablets during 2001. This compares with seizures of 1,528 kilograms of raw opium, 159 kilograms of heroin, and 26.7 million methamphetamine pills during 2000. While seizures of opium in 2001 modestly exceeded the amounts seized the previous year, seizures of heroin, well below last year's level, declined for the fourth straight

year. Seizures of methamphetamine tablets in 2001 were slightly above the amounts seized in 2000 and in 1999. Considering that an estimated 800 million methamphetamine tablets are produced in Burma each year, the approximately thirty million tablets seized in each of the past three years has no effect on the overall scope of the problem. Closures of heroin refineries and methamphetamine laboratories mirrored last year's level. Whereas in 1999, the GOB destroyed 13 heroin refineries and three methamphetamine laboratories, in 2000 they closed only three heroin refineries and two methamphetamine laboratories, and in 2001 they closed only three refineries and three laboratories. Seizures of precursor chemicals more than doubled in 2001 over last year's rate, however. Burmese law-enforcement officers reported seizing 174,191 liters of precursor chemicals in 2001 compared to 86,755 liters in 2000.

Major seizures in Burma in 2001 included the following: On August 4, the Monywa counternarcotics task force seized 161 kilograms of raw opium concealed beneath the floor boards of a truck in Monywa; on August 6, a joint counternarcotics team seized 3.4 million tablets of methamphetamine stored in a secret compartment of a truck in Taungyi; on August 30, an infantry column from the Burmese Army's 33rd Division destroyed a heroin refinery in the vicinity of Kutkai and seized 569 kilograms of raw opium and 9.3 kilograms of heroin; on September 6, police officials from Lashio seized 4.4 million tablets of methamphetamine after firing on and stopping a truck at the Sit-In bridge between Lashio and Hsipaw; and on October 14, in the largest seizure of methamphetamine tablets ever made in Burma, police officials in Hpa'an seized 6.9 million methamphetamine tablets from two false compartments in one vehicle. On October 27, in two related cases, police seized 2.2 million methamphetamine tablets from two caches in Tachileik township.

Burma continued its operational cooperation with the U.S. Drug Enforcement Administration (DEA), the Australian Federal Police, and other western and regional police agencies. In March, that cooperation resulted in the arrest of two Burmese citizens accused of exporting 357 kilograms of heroin to Fiji. Both have since been tried, convicted, and sentenced to death. Similarly, acting on information provided by the Thai police, Burmese police arrested Nyein Kyaw (aka Si Yon Kyin) and Kyaw Hlaing (aka Lauk San, aka Yaw Phar Li) in October in connection with a shipment of 116 kilograms of heroin and 7 million tablets of methamphetamine that the Thai police intercepted in January 2001.

The GOB has also allowed Chinese police officers to interrogate Burmese citizens, if they are apprehended for crimes in China. As a result of this cooperation, the Burmese arrested one major drug trafficker, Tan Xiao Lin, aka Tang Hsiao-lin, in April 2001 and turned him over to the Chinese in June 2001. Following the interrogation of Tan Xiao Lin, the Chinese identified four other major traffickers. One of these four (Shang Chao Mei) was arrested in Muse on September 3, and a second (Xiao Ming Yuan) narrowly escaped arrest in Laukai that same week. According to the Chinese, this group headed by Tan Xiao Lin was one of the largest "armed drug smuggling groups in the Golden Triangle area." The Chinese claim this group may have shipped as much as 15 tons of heroin per year, though the Burmese believe their annual turnover was considerably lower--perhaps no more than 1.5 tons per year.

During Secretary Khin Nyunt's September visit to Thailand, Thailand also proposed a program whereby the products of alternative-development projects in Burma would enter Thailand duty-free and offered 20 million Baht (about US\$440,000) for the establishment of a new alternative-development program in the Southern Military Region of Shan State, which is now occupied by the United Wa State Army. In return, the Burmese arranged a trilateral meeting among the Wa, the GOB, and Thai officials in November 2001 that helped impress upon the Wa the counternarcotics priorities of the two governments.

Burma also participated in a series of multilateral meetings on narcotics control during the summer. They included a regional ministerial meeting in Rangoon (organized in cooperation with UNDCP) on drug control in May, a senior officials meeting with narcotics officials from Laos, China, Thailand and Burma in Rangoon in early August, and a quadrilateral ministerial meeting of the same four countries in Beijing in late August.

**Eradication.** According to Burmese police statistics, police and army units made two planned eradication sweeps in Shan State and destroyed 26,113 hectares of opium poppy during the 2000/2001 crop year

(October to April). This compares with 10,987 hectares reportedly destroyed during the 1999/2000 crop year. According to UNDCP, there was clear evidence of two GOB eradication campaigns (one in early January and a second in late February) in all eleven townships that UNDCP surveyed during the 2000/2001 crop year. The U.S. is unable to verify eradication claims.

**Law Enforcement Measures.** Drug-enforcement efforts in Burma are 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, with most located in major cities and along key transit routes near Burma's borders with China, India, and Thailand. As is the case with most Burmese government entities, CCDAC suffers badly from a lack of adequate resources to support its law-enforcement mission.

The legal framework for Burma's law-enforcement efforts is provided by its 1993 Narcotic Drugs and Psychotropic Substances Law. As demanded by the 1988 UN Drug Convention, that law contains legal tools for addressing money laundering, the seizure of drug-related assets, and the prosecution of drug conspiracy cases. Burma has taken steps to fulfill its international commitments under those conventions, but has yet to enact and enforce legislation to address some of their provisions and has not enforced its existing money-laundering law. In 2001 the GOB drafted a mutual legal assistance law. Passage and implementation of the legislation has been delayed until 2002, but it is expected to lay the groundwork for cross-border judicial and law-enforcement cooperation in the prosecution of money laundering and other cases. Similarly, a new anti-money-laundering law was drafted in 2001 and is expected to be enacted in early 2002; the mutual legal assistance law should follow shortly thereafter.

In 2000 and 2001, the Burmese government launched its first serious campaigns against trafficking by former insurgent groups. In November 2000, the GOB took advantage of a mutiny within the Mong Ko Defense Army to seize Mong Ko and put that band and its leader, Mong Sa La, out of the narcotics business. It also sharply stepped up its pressure on the Kokang Chinese, who missed their 2000 target date for establishing an "opium free" zone throughout their self-administered territories. Starting in September 2001, the Burmese joined with the government of China in a series of joint operations that resulted in the destruction of heroin factories and methamphetamine labs throughout the Kokang Chinese Special Region No. 1 and the arrest of major traffickers. The Burmese government has also made clear to the Kokang Chinese that this campaign will continue. According to Burmese police sources, Secretary 1 Khin Nyunt has flatly told the Kokang leadership that they must be out of the narcotics business by 2002 or else the Burmese government would take "all necessary measures."

In the Wa Region, where the target date to be opium free is 2005, the Burmese government has moved much more cautiously. The Wa are far more formidable militarily than the Kokang Chinese and have proven to be useful allies for the Burmese government in battles with Khun Sa's Mong Tai Army and other Shan insurgent groups like the Thai-based Shan United Revolutionary Army (SURA) of Yawd Serk. Nevertheless, the Burmese government has slowly increased its administrative presence in the Wa territories. In 2001, for the first time, it established a Burmese police presence in the Wa territories, and in December 2001 the GOB established a military intelligence office in Pang Sang, the Wa capital. Its operations against the Kokang Chinese are seemingly intended to foreshadow the potential consequences for the Wa, if they remain in the narcotics business past 2005.

In 2001, the GOB also began a crackdown on the array of militias (some government-sponsored Ka Kwe Ye, i.e., village defense forces, and others the remnants of former insurgent bands) that the GOB had previously allowed to cultivate opium in the Kutkai-Lashio region of northern Shan State. According to military intelligence officials, with peace now prevailing in most of the countryside and the government no longer in need of the local security services these groups provided, steps are now being taken to slowly roll back their privileges, including the right to grow and traffic opium.

**Corruption.** There is no evidence that the Burmese Government, on an institutional level, is involved in the drug trade. However, there are persistent reports that officials, particularly army police personnel posted in outlying areas, are either directly involved in the drug business or are paid to allow the drug



business to be conducted by others. The Burmese government is aware of this and has waged a quiet campaign against narcotics corruption in the ranks. According to police statistics, since early 2000, 32 Burmese police officers have been punished for narcotics related corruption. Punishments took the form of imprisonment, terminations, demotions, and forced retirements. Jail sentences have been imposed on 17 officers, including one police major and two police lieutenants. Four officers have been terminated, including two police lieutenants, and six officers were forced to retire, including four police lieutenants. Over the same period of time, seven Burmese army soldiers, including one major and three other officers, were charged with narcotics-related corruption. All were prosecuted in accordance with Burma's counternarcotics laws and the Burmese military code.

**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. Burma also participates in UNDCP regional programs to combat illicit narcotics and related criminal activities. Burma is one of six nations (Burma, Cambodia, China, Laos, Thailand, Vietnam) that signed a Memorandum of Understanding (MOU) in 1993 with UNDCP. The "MOU states" agreed to cooperate to combat narcotics and to work jointly with UNDCP to improve sub-regional law-enforcement capabilities, including controlling precursor chemicals and reducing illicit narcotics production and trafficking in Southeast Asia. Burma is also a member of the regional action plan "ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD)," which, in conjunction with UNDCP, pledges all participant countries to implement a comprehensive, regional, cooperative action plan to make the region drug-free by 2015. At the first meeting to implement the action plan, held in Bali in November, Burma agreed to chair the ACCORD Task Force on Law Enforcement.

In addition, the GOB has 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. In 2001, Burma signed additional counternarcotics MOUs with China (in January) and Thailand (in June).

The MOU with China established a framework for joint operations, which in turn led to a series of arrests of major traffickers during the spring and summer of 2001. Burmese police maintain that Burmese law forbids the extradition of any Burmese citizen. In its MOU with China, however, the GOB has agreed to return to China any Chinese citizens wanted for crimes in China.

Burma's MOU with Thailand committed both countries to closer police cooperation in narcotics control. The MOU paved the way for an August 2001 meeting of police chiefs from both sides of the Thai-Burma border who agreed to share information and establish joint "narcotics suppression coordination stations" in the Chiang Rai/Tachileik, Mae Sot/Myawaddy and Ranong/Kawthoung border areas.

**Cultivation and Production.** With the ban on opium production in Afghanistan imposed by the Taliban in 2001, Burma returned to its position as the world's largest producer of illicit opium. According to the U.S./Burma joint opium yield survey, opium production declined in Burma for the fifth straight year in 2001, due to a combination of poor weather conditions and eradication efforts. The survey found that the maximum potential yield for opium in Burma in 2001 totaled 865 metric tons, down 220 metric tons (or approximately 20 percent) from 2000. Over the past five years, opium production in Burma is down by approximately two-thirds, from an estimated 2,560 metric tons in 1996 to 865 metric tons in 2001. The area under cultivation has declined by approximately 35 percent, from 163,100 hectares in 1996 to approximately 105,000 hectares in 2001. Yields, meanwhile, have been cut in half, from an estimated 17 kilograms per hectare in 1996 to levels (about 8.5 kilograms per hectare in 2001) that are now comparable to those in neighboring states, such as Laos. A UNDCP-sponsored survey in 11 districts in Shan State in 2001 produced similar results. According to UNDCP, its estimate for the average potential yield in the 11 districts was approximately 10.45 kilograms per hectare.

**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 former insurgent groups. A growing amount of methamphetamine is reportedly produced in labs co-located with heroin refineries in the Wa region and the former Shan United Revolutionary Army territory in southern Shan State. Heroin and

methamphetamine produced by Burma's former insurgent groups are most commonly trafficked along 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. Acetic anhydride, an essential chemical in the production of heroin, and ephedrine, the principal chemical ingredient of methamphetamine, are trafficked from China, India, and Thailand.

China and India are the principal sources for acetic anhydride, an essential chemical in the production of heroin, and ephedrine, the primary chemical used to manufacture methamphetamine.

**Demand reduction.** Drug abuse in Burma continues to increase. According to the GOB, there are only about 90,000 "officially registered" drug abusers in Burma, though UNDCP estimates that as many as 500,000 people (still less than 1 percent of the population) may abuse drugs. Opium use is most common among the older generations, but use of heroin and synthetic drugs continues to rise, particularly in urban and mining areas. Demand reduction facilities are strictly limited. There are six major drug treatment centers under the Ministry of Health and 49 detoxification programs at major hospitals throughout the country. Even when supplemented by international programs, however, those facilities fall well short of the need.

There is also a growing HIV/AIDS epidemic in Burma that has been linked in part to intravenous drug use. Fifty-seven percent of all intravenous drug users in Burma have tested positive for HIV/AIDS. Among the general population the HIV/AIDS infection rate is now approaching two percent.

#### IV. U.S. Policy Initiatives and Programs

**Policy and Programs.** Direct material counternarcotics aid by the U.S. government (USG) to Burma has remained suspended since 1988, when the Burmese military brutally suppressed the pro-democracy movement. As a result, the USG has very limited contact with the Burmese government on narcotics control. 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. Other U.S. agencies have conducted opium yield surveys in the mountainous regions of the Shan State in 1993, 1995, 1997, 1998, 1999, 2000 and 2001, with essential assistance provided by Burmese counterparts. These surveys give both governments a much more accurate understanding of the scope, magnitude, and changing geographic distribution of Burma's opium crop. The USG regularly urges the Burmese government to continue to take steps to curb narcotics production and trafficking. Specifically, we have encouraged the Burmese government to:

- Undertake counternarcotics efforts commensurate with Burma's central role in opium, heroin, and methamphetamine production and trafficking;
- 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 Chinese, and the Kachin, who have pledged to create opium-free zones in their regions, to make good on their commitments;
- Develop and enforce effective counternarcotics, conspiracy, and 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. DEA's liaison with Burmese policymakers and military officials--conducted mainly through DEA's office in Rangoon--focuses 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 in the world, the USG recognizes that large-scale and long-term international aid, including development assistance and law-enforcement aid, will be needed to curb drug production and trafficking in Burma. Recurring human rights violations and political concerns, however, have limited international support of all kinds, including support for Burma's law-enforcement efforts. Throughout 2001, the Burmese government demonstrated a new commitment to effective counternarcotics measures. It has continued its poppy eradication program, has initiated actions against drug traffickers and some drug-trafficking organizations, has drafted new money-laundering legislation, and has begun to work more closely and cooperatively with neighboring and regional countries. The GOB is encouraged to sustain and intensify those efforts so that its counternarcotics actions are equal to the scope of the problem. The government of Burma is further encouraged to take additional steps to combat corruption, enforce its narcotics and money-laundering legislation, intensify its efforts to eradicate all forms of illicit narcotics, including methamphetamines, and address meaningfully the growing problem of drug abuse and HIV/AIDS. The USG strongly urges the GOB to continue its law-enforcement campaigns and to expand its efforts to the most prominent trafficking groups and organizations (including asset forfeiture and seizure). The USG also urges the GOB to continue cooperating closely with other countries in the region, particularly those most seriously affected by drugs trafficked from Burma. Although Burma's counternarcotics record in 2001 is noticeably improved over that of prior years, sustained, expanded, and intensified efforts will serve as proof of the GOB's full and unequivocal commitment to combating illicit narcotics production and trafficking, and associated criminal activities, within its borders.

# Burma Statistics

(1993–2001)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Opium</b>									
Potential Harvest (ha)	105,000	108,700	89,500	130,300	155,150	163,100	154,070	146,600	165,800
Eradication (ha)	9,317	0	9,800	16,194	10,501	0	0	3,345	604
Cultivation (ha)	114,317	108,700	99,300	146,494	165,651	163,100	154,070	149,945	166,404
Potential Yield (mt)	865	1,085	1,090	1,750	2,365	2,560	2,340	2,030	2,575
<b>Seizures</b>									
Opium (mt)	1.622	1.528	1.445	5.200	7.884	1.300	1.060	2.265	2.265
Heroin (mt)	.095	0.171	0.273	0.386	1.401	0.505	0.070	0.347	0.300
Marijuana (mt)	—	—	0.274	0.160	0.288	0.259	0.239	0.290	0.600
Ephedrine (mt)	—	2.671	6.485	3.819	—	—	—	—	—
Acetic Anhydride (gal)	—	3,945	1,620	424	2,137	5,082	1,159	1,191	1,016
<b>Other Data</b>									
Heroin Labs Destroyed	—	—	23	32	33	11	3	4	0
Meth Labs Destroyed	—	—	6						
Narcotics Arrests	—	—	6,413	4,456	4,522	4,522	5,541	7,134	7,520
Heroin Users (thousands)	300	—	300	300	300	150	100	30	30
Opium Users (thousands)	120	120	120	120	120	120	120	120	120
Arrests	—	4,881	6,413	4,845	—	—	—	—	—

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# Cambodia

## I. Summary

Cambodia registered gains in improving law enforcement and limiting corruption in 2001, although ingrained corruption and endemic poverty hindered the government's ability to mount a sustained effort against narcotics trafficking. The government's principal counternarcotics body, the National Authority for Combating Drugs (NACD), cooperates closely with DEA, regional counterparts, and the UNODCCP (UN Office for Drug Control and Crime Programs). In October, the Prime Minister dismissed the head of the NACD in connection with the earlier arrest of another senior counternarcotics official on charges of trafficking in methamphetamine. He replaced him with a generally well regarded senior police official. In November, the White House announced Cambodia's removal from the list of major illicit drug producing and drug-transit countries, a development that was welcomed by the Prime Minister and other government officials. The Cambodian government recognizes that its counternarcotics efforts are spotty and often ineffective, and there is widespread recognition that Cambodian authorities need to be more aggressive in trying to stem the flow of illegal narcotics. Because of the unfortunate state of human and institutional capacity in Cambodia, however, Cambodia needs substantial material support in virtually every key area. Cambodia is a party to the 1993 Regional Memorandum of Understanding (MOU) on Drug Control, and is also a party to the six MOU countries' Sub-regional Action Plan for Drug Control. Cambodia is not a party to the 1961 Single Convention and its 1972 Protocol, nor the 1988 UN Drug Convention. The government, however, is on record as favoring becoming a party to the 1988 Drug Convention.

## II. Status of Country

Cambodia is not a major producer of opiates or coca-based drugs. Until recently, the scope of Cambodia's domestic drug abuse problem was deemed to be less severe than other neighboring countries in Southeast Asia. However, in the past couple of years Cambodia has experienced a disturbingly rapid and significant increase in amphetamine-type stimulant (ATS) abuse, particularly among youths who frequent the nightclub scene in Phnom Penh, commercial sex workers, and Cambodian migrant laborers. The incidence of glue sniffing and other inhalant abuse by vagrants, street children, and disadvantaged youths is also growing. In June, Deputy Prime Minister Sar Kheng termed the crisis of growing illegal substance abuse as Cambodia's second most serious social problem, trailing only the HIV/AIDS epidemic.

Marijuana is cultivated primarily for export, with some residual domestic consumption. There are no reliable figures available from either the Cambodian government or the UNDCP on the current extent of cultivation or yield, although some estimates place total production at 700-1,000 tons annually. Marijuana production tends to be concentrated in the provinces of Koh Kong, Battambang, Kampot, Kandal, Kampong Cham, Kratie, Stung Treng, Preah Vihear, and Banteay Meanchey. Planting is done by hand using traditional farming methods, with the normal harvest period occurring between late December and early January. Much of the production is reputed to be "contract cultivation" with Cambodians operating under the control or influence of foreign criminal syndicates. Analysis of seizures in recent years indicates that Europe is the major destination for Cambodian cannabis, with other destinations including the United States, Australia and Africa. Quantities coming to the United States are not sufficient to have a significant impact on the United States.

In addition to marijuana, Cambodia's involvement in the international narcotics trade is as a transit route for Southeast Asian heroin to overseas markets, including China, Australia, Europe, and the United States. There is little hard information available on the scale of heroin trafficked through Cambodia, but the amount of heroin seized in the United States in recent years that is traceable to or through Cambodia is small.

Cambodian authorities are becoming increasingly concerned with the significant increase in the amount of chemically based synthetic drugs coming into the country from Thailand and elsewhere in the region. Cambodian authorities believe that foreign crime syndicates, working in concert with Cambodian nationals, have set up highly mobile clandestine laboratories in Koh Kong, Banteay Meanchey, and Battambang provinces (all along the Thai-Cambodia border) that are producing ATS for local distribution and export. There are some indications that some stationary ATS production centers are being set up in Phnom Penh and elsewhere.

There is some concern that precursor chemicals imported for industrial use in Cambodia, including methanol, sulfuric acid, toluene, and ephedrine, are possibly being diverted for illicit drug production, although the magnitude of this diversion, if it exists, is difficult to ascertain.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Cambodian law enforcement agencies have very limited resources and lack even the most basic training in law enforcement techniques and drug enforcement measures. Three decades of warfare and factional fighting have severely hampered the government's ability to carry out a sustained effort against illegal drugs. In late 1998, the cessation of factional fighting and final demise of the Khmer Rouge, together with the formation of a new coalition government, provided a measure of stability that allowed the government to begin to devote more attention to combating crime and illegal narcotics. But better coordination is needed among various government agencies and ministries—ideally, with a beefed-up NACD playing a central role—to provide more effective measures against drug production, abuse, and trafficking.

The NACD, which was reorganized in 1999, has the potential to become an effective policy and coordination unit for the government. With the enthusiastic backing of the Cambodian government, the UNDCP launched in April 2001 a two-phase, four-year U.S. \$2.3 million “NACD Support Project” designed to strengthen the NACD Secretariat. This project seeks, *inter alia*, to establish the NACD as an independent functional government body able to undertake drug control planning, coordination, and operations. The project seeks to establish procedures for planning, operations, and administration and to provide staff training, technical advice, basic transportation, communications, and office equipment. There is some question, however, as to whether there will be sufficient funding for the project beyond mid-2002.

**Accomplishments.** A Cambodian delegation traveled to Rangoon in May to participate in a Ministerial-level meeting of the six greater Mekong sub-region countries and the UNDCP. In conjunction with the UNDCP, the six countries that are signatories to the 1993 Memorandum of Understanding on Regional Drug Control—Cambodia, Burma, Laos, Thailand, Vietnam, and China—hold annual meetings at the Senior Officials level and every other year at the Ministerial level to discuss drug control developments in the region, assess the measures being taken to deal with illicit drug problems, and adopt recommendations on joint remedial actions.

The UNODCCP, with U.S. funding, established a resident liaison office in Phnom Penh in April 2001. The office provides technical assistance to the NACD and is the focal point for donor group activity related to counternarcotics activity in Cambodia. Key donors include Japan, Australia, the United Kingdom, France, Germany, and the European Commission in addition to the United States. In September, Sandro Calvani, Head of the UNODCCP Regional Center for East Asia and the Pacific, visited Phnom Penh for meetings with senior government officials, including Prime Minister Hun Sen and Deputy Prime Minister Sar Kheng. The Prime Minister pledged to cooperate with the UN on combating drugs and appealed to the international community for assistance to build up domestic institutional and human capacity.

Under the leadership of Australia and Japan, a Phnom Penh Mini-Dublin Group was formed in 1999, a development that was warmly welcomed by the Cambodian authorities. This group, in which the United

States participates actively, provides a forum for multilateral discussion of narcotics issues and aims to improve coordination of donor efforts to Cambodia's drug control and counternarcotics trafficking efforts. The Mini-Dublin Group met twice in 2001.

**Law Enforcement Efforts.** According to preliminary figures from the Anti-Drug Department of the National Police, 109 people were arrested for various drug-related offenses in 2001, compared with 124 arrests in 2000. Of the 109 persons arrested in 2001, 80 were Cambodians, 21 were Vietnamese, and eight were other nationals. In 2001, one particularly significant drug arrest took place in December, when police arrested four people suspected of producing methamphetamine. The police confiscated some precursor chemicals and various other drug paraphernalia. The significance of this case stems from its being one of the few instances in recent memory where police arrested suspected producers, rather than buyers and sellers.

**Corruption.** Corruption remains widespread and pervasive in Cambodia. This makes Cambodia highly vulnerable to penetration by drug traffickers and foreign crime syndicates, and makes effective law enforcement a daunting challenge. Senior Cambodian government officials proclaim their intention to fight illegal narcotics trafficking and production, and officials at all levels regularly call for U.S. assistance in training counternarcotics police. Several factors constrain sustained advances in effective law enforcement of illegal drugs by the government, however, not the least of which is an acute shortage of trained personnel and high levels of official corruption, aggravated by abysmally low salaries for Cambodian civil servants. There is no formal police training academy, and the management structure in the law enforcement agencies would not be able to benefit from and implement outside training or the establishment of investigative and administrative procedures. The judicial system is weak, and there have been numerous cases of defendants in important narcotics and other criminal cases having charges against them dropped inexplicably after paying relatively small fines.

In early October, a special police task force arrested a senior counternarcotics official and four accomplices on charges of trafficking in methamphetamine. It was later revealed that the senior official arrested was a close associate of Lt. Gen. Em Sam An, the head of the NACD. This revelation led to an outpouring of press criticism leveled at the government and prompted an official letter of concern from the UNDCP liaison office. By late October, Prime Minister Hun Sen dismissed Em Sam An from his NACD position, although Em Sam An retained his high ranking position of Secretary of State at the Ministry of Interior and was not charged with any offense. The Prime Minister's action was well received domestically and internationally. The new head of the NACD appointed by the Prime Minister is Lt. Gen. Teng Savong, a generally well respected senior officer who was deputy chief of the National Police prior to this appointment.

**Agreements and Treaties.** Cambodia has signed, but not ratified the 1961 UN Single Convention on Narcotic Drugs and the 1972 Protocol amending the Single Convention. Cambodia is not a party to the 1971 UN Convention on Psychotropic Substances or the 1988 UN Drug Convention. However, the comprehensive counternarcotics legislation passed by the National Assembly in December 1996 would enable Cambodia to become a party to the above conventions and to implement measures consistent with these conventions. Although Cambodia is not yet a party to the UN drug conventions, the government voluntarily submits the UNDCP annual report questionnaire required of parties to the conventions.

Cambodia has no extradition or mutual legal assistance treaty with the United States, but the Cambodian government has cooperated with U.S. law enforcement agencies regularly in the past by rendering or deporting persons wanted in the United States for crimes, including narcotics, upon request and presentation of an appropriate warrant. The U.S. Embassy in Phnom Penh 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. The Cambodian government views bilateral and regional cooperation with neighboring states and with UNDCP to be essential in its efforts to combat narcotics trafficking.

On November 11, 2001, Cambodia signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** Accurate estimates of the level of drug cultivation and production are difficult to come by. As in recent years, Cambodian authorities had some success in combating illicit cultivation during 2001. Some cannabis plantations and fields of varying sizes were destroyed.

**Drug Flow/Transit.** Cambodia shares porous borders with Thailand, Laos, and Vietnam and lies near the major trafficking routes for Southeast Asian heroin. Some heroin and marijuana are believed to enter and exit Cambodia via the deep water port of Sihanoukville (also known as Kampong Saom), locations along the coastline of Koh Kong (near the Thai border) and Kampot (near the Vietnamese border) provinces, and the river port of Phnom Penh. The country's main international airport, Pochentong International Airport in Phnom Penh, suffers from lax customs and immigration controls, and some illegal narcotics are believed to transit there en route to foreign destinations. Under the Cambodian government's "Open Skies" policy, direct flights from major Asian gateways, including Bangkok and Singapore, began serving the regional airport in Siem Reap (location of Angkor Wat) in 2000. Customs and immigration controls in Siem Reap are rudimentary. There was some concern in late 2001 that developments in Afghanistan could trigger an increase in opium transiting Southeast Asia, including through Cambodia.

**Domestic Programs (Demand Reduction).** With the assistance of the UNDCP, the World Health Organization (WHO), the Japanese International Cooperation Agency (JICA), and some NGOs, the NACD is attempting to boost awareness about drug abuse among the populace, especially Cambodian youth, through the use of pamphlets, posters, and public service announcements. Cambodia does not have separate rehabilitation centers for recovering drug addicts, but the government has sought outside assistance for programs on drug treatment, rehabilitation centers for drug addicts, and vocational training centers for severe addicts. Several national and international NGOs operate in Cambodia with mandates that directly or indirectly relate to drug control issues, including demand reduction. In August 2001, over 30 international organizations, NGOs and UN Agencies joined together to form the Drug Abuse Forum (DAF). DAF members, which include UNICEF (UN Children's Fund) and IOM (International Office of Migration), have agreed on a work-plan that will include a series of "train the trainer" workshops with staff drawn from the DAF and other government agencies that will transfer fundamental skills and basic knowledge about drugs to the at-risk population. The DAF and UNODCCP will also produce and distribute a range of drug education and awareness materials, including training booklets for field workers, leaflets for mass distribution to school children and youth, and posters and other materials.

## IV. U.S. Policy Initiatives and Programs

In November 2001, the President removed Cambodia from the list of major illicit drug producing and major drug-trafficking countries/economies. Cambodia was first placed on the Majors List in 1996 due to information indicating that heroin trafficking was a serious concern, especially in light of the high volume of drug trafficking in the region, the weakness of Cambodian law enforcement institutions, and the lack of an effective criminal justice system and counternarcotics laws. Cambodia was removed from the Majors List because a closer monitoring of the situation indicated that there is no significant amount of heroin or other drugs transiting Cambodia en route to the United States. Cambodia is a marijuana producing country, but production does not appear to be near the level at which a marijuana growing country is considered a major producer under the Foreign Assistance Act of 1961, as amended. There is also no evidence any significant amount of Cambodian marijuana reaches the United States.

Cambodia is a fragile, flawed democracy. For the first time in over three decades, there has been relative political stability following the formation of a democratically-elected coalition government and National Assembly in 1998, but Cambodia is plagued by many of the institutional weaknesses that are common to the world's most vulnerable developing countries. The challenge for the United States includes: nurturing



the growth of democratic institutions and the protection of human rights; providing humanitarian assistance and promoting sound economic growth policies to alleviate the debilitating poverty that engenders corruption; and building human and institutional capacity in law enforcement sectors to enable the government to deal more effectively with narcotics traffickers.

**Bilateral Cooperation.** Consistent with statutory restrictions on the provision of assistance to the central government of Cambodia, the Department of State's Bureau for International Narcotics and Law Enforcement Affairs as a matter of policy has not provided counternarcotics/anticrime assistance to Cambodia. The U.S. provides some counternarcotics assistance indirectly to Cambodia via multilateral contributions, primarily through the UNDCP.

Despite the suspension of direct U.S. government non-humanitarian assistance to the Cambodian government, including counternarcotics assistance, which continued in 2001, the Cambodian government openly welcomed bilateral cooperation with DEA and with other U.S. law enforcement agencies. Cambodia regularly hosts visits from DEA personnel based in Bangkok, and Cambodian authorities cooperate actively with DEA.

U.S. officials raise narcotics-related issues regularly with Cambodian counterparts at all levels, up to and including the Prime Minister. Senior Cambodian officials freely admit the country's many shortcomings in the area of law enforcement due to corruption and insufficient resources, and regularly appeal for U.S. government assistance, especially in technical training.

**The Road Ahead.** Funding is needed to encourage greater bilateral and multilateral counternarcotics cooperation involving Cambodia. At every meeting and at every level, Cambodian law enforcement authorities appeal for technical assistance and training. Mid-level Cambodian law enforcement officers have been allowed to attend training courses at the International Law Enforcement Academy in Bangkok (ILEA) since mid-2000. This training has partially addressed Cambodia's dire training needs. The ILEA training has produced a small but growing cadre of Cambodian officials who are becoming familiar with modern police techniques including drug identification, investigations, coordination of operations and intelligence gathering.

Funding assistance is needed to allow working level Cambodian officials to participate in regional counternarcotics conferences, such as the annual meetings of the six greater Mekong sub-region countries that are signatories to the 1993 Memorandum of Understanding on Drug Control with the UNDCP.

In mid-1999, the DEA Country Attaché from Bangkok and the U.S. Ambassador presented the NACD with an INL-funded drug-testing laboratory, but there has been no follow-up U.S. assistance to the laboratory since that time. A DEA chemist visited the laboratory in September-October 2000 and prepared a comprehensive report documenting safety concerns and equipment needs and suggesting sources of funding and training for laboratory personnel. Since that time, however, there has been relatively little substantive follow up by the U.S. side, despite the best efforts of the DEA Bangkok Country Office, which included funding the travel of two Cambodian technicians to Bangkok for training by Thai authorities in use of the drug laboratory. The NACD laboratory continues to operate at minimal capacity, and there is insufficient money available from the Cambodian government to continue laboratory operations. The UNDCP has held discussions with various potential donors regarding funding of safety equipment that needs to be installed at the laboratory to bring it up to acceptable standards for operational use. Assistance is needed to make this U.S.-funded drug laboratory operational, but such bilateral assistance is precluded by current legislative restrictions.

In sum, Cambodia is making progress toward more effective institutional law enforcement against illegal narcotics trafficking, and its leadership is intent on doing more. However, Cambodia's institutional capacity to implement an effective, systematic approach to counternarcotics operations is low.

# China

## I. Summary

The People's Republic of China (PRC) remains a major transit country for illegal narcotics produced in the Golden Triangle. China continued to take strong measures to stem the production, abuse, and trafficking of narcotics in 2001, but indications like growing seizures and more domestic drug abusers point to a drug problem in China that is getting worse. Chinese authorities clearly understand the threat posed by drug trafficking in the region, and they have begun to take steps to integrate China into regional and global counternarcotics efforts. Trafficking cases rose in 2001, but the amount of illicit narcotics seized by the authorities rose as well. Preliminary figures for 2001 suggest that heroin seizures by Chinese law enforcement personnel will significantly exceed last year's total by year's end, while seizures of amphetamine-type stimulants (ATS), tracking growing illicit domestic production and trafficking, are up as well.

Throughout 2001, Chinese authorities continued to provide U.S. counternarcotics officials with samples of many types of drugs seized en route to the United States. In 2000 the United States and China signed a mutual legal assistance agreement, which entered into force March 8, 2001. China is a party to the 1988 UN Drug Convention.

## II. Status of Country

China is situated adjacent to both the "Golden Triangle" and the "Golden Crescent." Most seizures of Southeast Asian heroin now occur within Chinese borders. Preliminary figures suggest that heroin seizures in 2001 were the highest in years, easily topping the record 7,358 kilograms seized in 1998. ATS seized in 2001 will likely exceed the quantity seized in 2000. Drug abuse in general continues to rise in China. The Chinese government has reported that there were 900,000 registered drug addicts in 2001, an increase of over 200,000 in two years. Officials privately admit that the actual number of users is likely far higher.

China is a major producer of precursor chemicals, including acetic anhydride, potassium permanganate, piperonylmethylketone (PMK), and ephedra. China monitors all 22 of the precursor chemicals listed in Table I and Table II of the 1988 UN Drug Convention. China continues to be a strong partner with the United States and other concerned countries in implementing a system of pre-export notification of dual-use precursor chemicals. (For details, see the Chemical Controls section of this report.)

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In June 2000, the government issued a "White Paper" on drugs, which laid out a comprehensive strategy for fighting narcotics use and trafficking. This strategy, which covered all of the major goals and objectives of the 1988 UN Drug Convention, puts emphasis on education, rehabilitation, eradication, precursor chemical control, and interdiction. In 2001, Chinese counternarcotics authorities proceeded with these efforts.

**Cultivation/Production.** Through its effective eradication program, China essentially has eliminated commercial narcotic drug cultivation within the PRC. The government continues to target small-scale cultivation in remote areas of the country's northwest. Ephedra, a plant from which the precursor for methamphetamine is made, grows wild in northern parts of China. The government tightly controls exports of this key precursor.

Faced with a growing threat from methamphetamine and synthetic drugs such as ecstasy, the government made closing down illicit drug laboratories a top priority in 2001. These efforts halted many illicit operations, but new ones continue to spring up, especially in China's more remote locations.

**Drug Flow/Transit.** China shares a 2,000-kilometer border with Burma. The majority of heroin produced in Burma now travels through China en route to the international market. Reflecting China's importance as a transshipment route, most seizures of Burmese heroin now take place in China. Smaller quantities of heroin enter China from Laos, Vietnam, and Southwest Asia, including an increasing flow from the neighboring "Golden Crescent" countries.

**Law Enforcement Efforts.** Preliminary figures suggest that seizures of heroin by Chinese law enforcement personnel in 2001 were up in virtually all areas compared to the previous year. China accounted for more heroin seizures in 2001 than all other East Asian countries combined. Seizures of methamphetamine also remained high.

In 2001, responding to U.S. requests, Chinese authorities increased their level of cooperation with the United States in sharing drug-related strategic intelligence. Ministry of Public Security (MPS) officials routinely facilitated trips for U.S. law enforcement authorities operating out of the U.S. Embassy in Beijing. On several occasions, MPS officials provided vital intelligence information on suspected drug traffickers that resulted in the identification of several major suppliers.

**Corruption.** Chinese officials admit that corruption is one of the most serious problems the country faces. Anticorruption campaigns have led to the arrest of hundreds of government officials, but rarely to a vigorous move against some in the Party and government who must be protecting drug producers and traffickers. China's recent entry into the WTO should have the effect of reducing tariff barriers to imports, and it will hopefully reduce smuggling and its attendant corruption. Narcotics traffickers are frequently able to take advantage of "routine, corrupt arrangements" (pay-to-pass the checkpoint) primarily designed to avoid high customs duties. Cases of narcotics-related corruption in China are seldom reported in the press, but clearly play an important role in China's growing drug trafficking and illicit production problem. At the same time, there are clearly a preponderance of officials who move aggressively against narcotics crime despite blandishment of corrupt payments.

**Domestic Programs (Demand Reduction).** Education and rehabilitation play major roles in China's counternarcotics strategy. According to official statistics, there were 900,000 registered addicts in 2001, but officials admit that the real figure may be many times higher. Individuals identified as addicts are subject to compulsory rehabilitation. China provides counternarcotics education to all school children, and has also taken steps to warn citizens about the link between intravenous drug use and HIV/AIDS. According to official statistics, the number of HIV/AIDS patients in China has risen to over 22,000, up from a reported 12,639 in 1998. Presently, nearly 71 percent of China's HIV/AIDS cases are reported to have become infected via drug injection, as opposed to 67.5 percent in 1998. China has continued to implement "drug free community" programs in order to mobilize entire communities to work together to combat narcotics trafficking and encourage addicts not to relapse.

**Agreements and Treaties.** China is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. China has signed more than 30 mutual legal assistance treaties with 24 countries. On March 8, 2001, a mutual legal assistance agreement between China and the United States entered into force. It potentially constitutes a powerful tool for obtaining evidence important to the U.S. investigation and prosecution of transnational criminals, including narcotics traffickers. China has long refused to provide assistance in response to U.S. requests, and this reluctance has continued since the mutual legal assistance agreement entered into force. In 1999, China and the United States signed a bilateral customs mutual assistance agreement, but China has not yet activated it. This agreement, if brought into force, would facilitate cooperation by customs officials and enhance the flow of narcotics intelligence.

China also cooperates actively with countries in the region in the fight against drug trafficking. Along with the UN Drug Control Program and five Southeast Asian nations (Cambodia, Laos, Burma, Thailand, and Vietnam), China is a member of the Memorandum of Understanding (MOU) program. In the MOU, the members agreed to collaborate on drug-control projects and programs. In August 2001, senior officials from Thailand, Burma, Laos, and China met in Beijing to discuss ways to strengthen regional efforts to

fight drug trafficking and the transshipment of precursor chemicals. China and Laos continue to cooperate in combating transnational crimes, including narcotics trafficking. China continues to support crop-substitution initiatives for farmers in Burma and Laos, as well as demand reduction efforts in areas bordering Yunnan province. China participates in the ASEAN-and-China Cooperative Operations in Response to Dangerous Drugs (ACCORD) program, an action plan developed by ASEAN in partnership with UNDCP. ACCORD has four major goals: fostering civic awareness of the dangers of drugs in the community, undertaking effective demand reduction, strengthening rule of law and law-enforcement cooperation, and eliminating illicit drugs through alternative development and eradication. China also participates in the “Six plus Two” Drug Control Mechanism program, with Iran, Pakistan, Tajikistan, Turkmenistan, Uzbekistan, Russia, and the U.S.

#### **IV. U.S. Policy Initiatives and Programs**

Bilateral counternarcotics cooperation improved further in 2001. Chinese and U.S. officials continued to cooperate closely in conducting transnational investigations, exchanging information on existing and emerging threats, and developing Chinese law-enforcement capabilities.

Ministry for Public Security counternarcotics officers attended training courses at the International Law Enforcement Academy in Bangkok, Thailand, such as the Narcotics Unit Commanders Course, and the Transport Interdiction Course, and a training course organized by the DEA for forensics officials. In 2001, Chinese authorities provided their U.S. counterparts drug samples on numerous occasions.

**The Road Ahead.** Despite these advances, there is much room for improvement in U.S.-China cooperation on narcotics control, particularly in expanding and strengthening cooperation by exchanging narcotics-related intelligence. The United States has proposed holding regular meetings of working-level counternarcotics officials to discuss specific topics and targets of mutual interest, but little progress has been made in this area to date. The United States also continues to encourage China to provide more samples of narcotics seized. As in the past, the United States will continue to monitor both the transshipment of Burmese heroin through China and the threat posed by the explosive growth of methamphetamine trafficking in China.

# Fiji and Tonga

## I. Summary

Neither Fiji nor Tonga is a major producer or a significant consumer of narcotics. There are some indications both Fiji and Tonga are being used by drug syndicates as transshipment points for drugs bound for Australia, Canada, and New Zealand. Police suspect that Fiji has also been used to transship drugs to the United States. Both Fiji and Tonga are parties to the 1988 UN Drug Convention.

## II. Status of Country

Indications of the quantity of drugs transiting Fiji and Tonga are provided by the November 2001 seizure in Tonga of 100 kilograms of cocaine, and the seizure in Fiji of 357 kilograms of 90 percent pure heroin in October 2000. On November 21, 2001, the Tonga police seized 100 kilograms of cocaine hidden in a shipment of floor tiles. The tiles were shipped to Tonga from Panama. Paperwork associated with the shipment indicates that the floor tiles were scheduled to be shipped to Fiji and then to Australia. The Australian federal police are working with Tonga in this investigation and state that they believe that an additional 150 kilograms of cocaine had already transited Tonga before the Tonga police discovered the cocaine they seized. Neither the Fiji nor Tonga police forces are capable of combating major drug activity without assistance.

The greatest impediments to effective narcotics enforcement in Fiji and Tonga are their outdated laws and inexperienced and under-trained police. For example, Fiji law requires the approval of the President of Fiji in order to conduct a wiretap. Fiji law also requires that before customs officers can open a suspicious package or container the owner must be informed and must be present. Even when laws provide for modern investigative techniques, the police are often unable to manage such techniques. The maximum possible sentence for narcotics offenses in Fiji is eight years.

Both Fiji and Tonga have laws permitting controlled deliveries of drugs for investigative purposes, although the ability of both local police forces to conduct such operations is limited. They do not have the training, personnel, or equipment to conduct the surveillance that would be part of a controlled delivery. Fiji police have conducted one controlled delivery with personnel and technical assistance from the Australian federal police. The use of controlled deliveries by the police is also limited because Fiji and Tonga laws require the police to prosecute only based on the amount allowed to remain in the controlled delivery and not the original amount of drugs.

Fiji does have a law to provide for the confiscation of the proceeds earned from the commission of serious offenses. The Fiji police have never used these asset seizure laws in a criminal case. Nor have they ever used the provision of the law for identifying criminal proceeds.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Both Fiji and Tonga are taking steps to try to modernize their narcotics laws and criminal investigative procedures. Fiji and Tonga have established Combined Law Agency Groups (CLAGs). CLAGs consist of law enforcement and other agencies and are designed to provide for the timely exchange of information, enhance cooperation efforts, and develop joint target strategies.

**Cultivation/Production.** Fiji has a growing internal problem with the cultivation and sale of cannabis. Other than cannabis, neither Fiji nor Tonga produces any drugs. Neither plays any role in the procurement of precursor chemicals.

Fiji is working to meet the goals of the 1988 UN Drug Convention. The Fiji police seized 175 kilos of marijuana in a raid on a rural farming area in 2001. As the economy continues to worsen, an increasing number of farmers are switching to marijuana. There are no known incidents of export of cannabis from Fiji. Cannabis is the drug of choice primarily for economic reasons. The average income level in Fiji does not allow for the purchase or use of more expensive drugs.

**Agreements and Treaties.** Both Fiji and Tonga are parties to the 1988 UN Drug Convention and both are trying to meet the goals and objectives of the Convention. Fiji and Tonga are also parties to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances.

The 1931 U.S.-UK Extradition Treaty remains in force between the United States and Tonga through a 1977 exchange of notes. Similarly, the 1931 U.S.-UK Extradition Treaty remains in force between the United States and Fiji through an exchange of notes that entered into force in 1973. Cooperation generally between Fiji, Tonga, and the United States is excellent

**Corruption.** The political instability caused by the overthrow of the previous government makes Fiji highly vulnerable to corruption, while poverty contributes to corruption in Tonga.

**Law Enforcement Efforts.** According to Tonga officials, Tonga faces an increased threat from the large number of criminal deportees sent from the United States. Officials note that in 2000, 23 criminals were deported to Tonga from the United States in accordance with U.S. law requiring the deportation of criminal aliens. As of the date of this report, 25 more criminals had been deported to Tonga in 2001. Many of these deportees had been convicted for drug-related crimes and other serious offences, such as armed assault, armed robbery, and sexual assault. In May 2001 Tonga police identified at least three deportees who were members of the “Tonnage Crip Gang” while in the United States. Tonga authorities say that they are now faced with sophisticated criminals whose skills and knowledge exceed that of the local authorities. Authorities of Tonga have stated that crime is increasing 40 percent each year in Tonga. Tonga police do not have the training or equipment to deal with the increase in either the number of crimes or the sophistication of criminals.

# Hong Kong

## I. Summary

Hong Kong's efficient law enforcement efforts, the availability of alternate transport routes, and the development of port facilities in southern China have diminished Hong Kong's role as a major transshipment/transit point for drugs destined for the United States and the international market. Traffickers continue to operate from Hong Kong, however, arranging for shipments from drug producing areas to such destinations as Australia and Canada. Hong Kong adopts a multi-pronged strategy in combating drug trafficking and abuse covering legislation and law enforcement, treatment and rehabilitation, preventive education, research, and international cooperation. Hong Kong plays an active role in international cooperation to combat illicit trafficking of narcotics drugs. In November 2000, Hong Kong was removed from the U.S. list of major illicit drug producing or major drug-transit points, although it remains a country/economy of concern to the United States. The 1988 UN Drug Convention, to which the PRC is a party, applies to Hong Kong.

## II. Status of Hong Kong

Hong Kong's role as a key port city in close proximity to the Golden Triangle and Mainland China historically made it a natural transit/transshipment point for drugs moving from Southeast Asia to international markets, including the United States. In recent years, Hong Kong's law enforcement efforts and the rapid development of alternate transport facilities in southern China and other transport routes in Southeast Asia have reduced Hong Kong's role as a transit/transshipment center for narcotics. Nevertheless, limited amounts of drugs continue to transit Hong Kong to the United States and the international market.

Hong Kong law enforcement officials continue to maintain a cooperative liaison relationship with their U.S. counterparts on narcotics and related criminal activities. Hong Kong is not a producer of illicit drugs, and, according to Hong Kong authorities, drugs seized in Hong Kong are smuggled in mostly for local consumption.

The overall number of drug abusers in Hong Kong increased by 10.5 percent from the first half of 2000 (10,710) to the first half of 2001 (11,839). For persons aged 21 and under, an increase of 24.7 percent was recorded during the same period. The sharp increase was mainly driven by the upward trend of abuse in psychotropic substances, such as MDMA (ecstasy) and ketamine. Heroin, used by 71.8 percent of the registered abusers, remains the most commonly abused narcotic in Hong Kong.

## III. Actions Against Drugs In 2001

**Policy Initiatives.** In response to a decision by the United Nations Commission on Narcotic Drugs to tighten control on gamma-hydroxybutyric acid (GHB) and 4-methylthioamphetamine (4-MTA), Hong Kong in October 2001 amended Schedule I of its Dangerous Drugs Ordinance to include these two substances. The Hong Kong government, under the guidance set out in the 1988 UN Drug Convention, tightly controls the licensing of 25 precursor chemicals through the Control of Chemicals Ordinance. This ordinance allows the government to suspend the license of any applicant suspected of false representation and to seize any chemicals in the suspect's possession.

Under the Drug Trafficking (Recovery of Proceeds) Ordinance (DTROP) and the Organized and Serious Crimes Ordinance (OSCO), a court may issue a restraint order against a defendant's property. Property includes money, goods, real property, and the instrumentalities of crime. In 2002, the Hong Kong government plans to reintroduce to the legislature amendments to strengthen the DTROP and OSCO.

The proposed amendments would streamline confiscation procedures and increase the liability of financial institutions engaged in money-laundering activities. There is no express provision in Hong Kong law that provides for sharing confiscated assets with foreign jurisdictions. The law, however, does allow for assets confiscated from an external confiscation order to be held in a special account that enables sharing of assets. In September 2001 the U.S. government received over \$3 million in proceeds from a joint U.S.-Hong Kong narcotics investigation.

A new bill centralizing and standardizing the licensing of drug treatment and rehabilitation centers was passed in April 2001. The Drug Dependent Persons Treatment and Rehabilitation Centers Ordinance has improved the quality of service and the protection of patients' rights. Under this law, the Social Welfare Department of the Hong Kong government became the sole authority for licensing drug treatment and rehabilitation centers throughout Hong Kong.

**Law Enforcement Efforts.** Hong Kong's law enforcement agencies accord high priority to the suppression of drug trafficking and the control of precursor chemicals. Hong Kong is not a drug producing territory. Drugs are smuggled into Hong Kong primarily for local consumption and only to a limited extent for onward shipment to the international market. The Hong Kong police take a three-level approach to combating narcotics distribution: at the headquarters level, the narcotics bureau targets drug trafficking and high-level traffickers. The regional police force focuses on trafficking across police district boundaries. At the district level, the police aim to eradicate street-level distribution. Hong Kong works closely and cooperatively with U.S. law enforcement agencies.

The narcotics bureau of the Hong Kong police cooperates with the People's Republic of China, Canada, Australia, the United States, and countries throughout Southeast Asia in combating international drug trafficking. However, its resources are primarily focused on syndicates involved in supply and distribution of drugs to the Hong Kong domestic market.

The Hong Kong Customs and Excise Department (HKCE) continues to strengthen its counternarcotics efforts. In March 2001, HKCE established a 34-person task force, the Control Point Investigation Division, specifically aimed at combating smuggling and drug trafficking between Hong Kong and Mainland China. The main function of this new task force is to collect and analyze the latest smuggling and drug trafficking patterns and modus operandi of traffickers to assist frontline officers in targeting suspicious passengers, cargoes, and vehicles.

In 2001 HKCE also improved its narcotics detection capability. Two sets of mobile x-ray systems at a cost of U.S. \$5.5 million were put into use at container terminals and border control points. These x-ray systems can scan a fully loaded 40-foot container within 20 minutes without off-loading the cargo. HKCE also completed its first narcotics canine training program in 2001. The narcotics canine unit now has 31 officers and 25 highly trained detector dogs, including five passive alert dogs. These dogs have been deployed at the airport, land border control points, and container terminals.

**Corruption.** There is no known narcotics-related corruption among senior government or law enforcement officials of Hong Kong, and there is no evidence that any senior Hong Kong officials engage in, encourage, or facilitate the laundering of proceeds from illegal drug transactions. Hong Kong has a comprehensive anticorruption ordinance that is effectively enforced by the Independent Commission Against Corruption (ICAC), which reports directly to the Chief Executive.

**Drug Flow/Transit.** Although Hong Kong's role as a major narcotics transit/transshipment point has diminished in recent years, a limited amount of illicit narcotics continues to transit Hong Kong for the international market, including the United States. In January 2001, authorities in New Jersey seized a 58-kilogram heroin shipment that had transited Hong Kong. As several seizures in 2001 indicate, small quantities of drugs, usually weighing two to five kilograms, are still being sent from Hong Kong to the United States, either by courier service or through the postal system. Hong Kong traffickers, using Hong Kong as a base, continue to control large portions of Southeast Asian narcotics traffic, using various



routes and means throughout the region. For example, in December 2001 Hong Kong authorities seized 30 kilograms of heroin destined for Taiwan.

In an effort to eradicate Hong Kong's role as a transport/transshipment point for illicit drugs, Hong Kong authorities have developed a database of information on all cargoes, cross-border vehicles, and shippers. The Air Cargo Clearance System (ACCS), the Land Border System (LBS), and the Customs Control System (CCS) are all capable--at the click of a button--of processing information on all import and export cargoes, cross-border vehicles, and vessels.

**International Cooperation.** The narcotics division of the Hong Kong Security Bureau and the Action Committee Against Narcotics (ACAN) jointly hosted a trilateral (Guangdong, Hong Kong, and Macau) conference on "Policy To Tackle Drug Abuse And Drug Trafficking" in November 2001. The purpose of the conference was to enhance counternarcotics cooperation among Guangdong Province, Hong Kong, and Macau officials. Over 350 people attended.

Hong Kong maintains close links with the United Nations, the World Health Organization (WHO), Financial Action Task Force (FATF), INTERPOL, and the World Customs Organization (WCO) as well as with individual governments around the world to combat narcotics trafficking and abuse. Hong Kong has mutual legal assistance agreements with the United States, Australia, France, the United Kingdom, New Zealand, Italy, Republic of Korea, and Switzerland. Hong Kong has also signed surrender of fugitive offenders agreements with 12 countries, including the United States, and transfer of sentenced persons agreements with three countries, including the United States. Hong Kong provides assistance to over 140 countries for the restraint and confiscation of proceeds from drug trafficking under the Recovery of Proceeds Ordinance. In addition, Hong Kong's law enforcement agencies maintain close liaison relationships with Mainland China and counterparts in many countries. Through their established liaison channels, they exchange operational intelligence on drug trafficking, money laundering, and control of precursor chemicals.

**Domestic Programs (Demand Reduction).** In 2001, Hong Kong's preventive education policy continued to focus on youth and parents. Hong Kong provides a comprehensive drug prevention program through its education system. In September 2001 the program was expanded to cover all English-speaking schools. In the first ten months of 2001, three NGOs commissioned by the Hong Kong Narcotics Division gave drug educational talks to over 87,000 students in more than 400 schools and technical institutes. During the same period there were over 70 programs aimed specifically at educating parents and employees of youth organizations on drug abuse. An exhibition hall on narcotics is being built in the newly opened Drug Infocenter in order to spur further interest in efforts to combat drug abuse in Hong Kong.

**Cultivation/Production.** Hong Kong is not a producer of illicit drugs.

## IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives/Programs.** U.S. law enforcement officials continue to emphasize joint investigations with their Hong Kong counterparts to develop prosecutable cases--either in Hong Kong, the United States, or other jurisdictions. Hong Kong continues to be an active participant in U.S.-sponsored training programs on narcotics and money laundering. In 2001 over 30 Hong Kong officials attended programs at the International Law Enforcement Academy (ILEA) in Bangkok, Thailand. ILEA Bangkok's year 2001 curriculum included courses on airport programs and controlled deliveries, complex financial crimes, as well as a "Narcotics Commander" course and three supervisory criminal investigator courses dealing with regional drug and money-laundering issues. Also, in September 2001 ten ILEA-Bangkok graduates from Hong Kong attended a new advanced management course offered at the ILEA in Roswell, New Mexico.

**The Road Ahead.** The United States will continue to encourage Hong Kong to maintain an active role in combating narcotics and money laundering consistent with its international stature. The United States

continues to emphasize the importance of close cooperation based on open, complete, and timely information exchange between Hong Kong and U.S. law enforcement agencies to strengthen, enforce, and implement existing laws and guidelines.

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# Indonesia

## I. Summary

Although by international standards Indonesia is not a major drug producing, consuming, or drug-transit country, the use of drugs produced or manufactured in Southeast Asia is increasing. To improve its ability to combat this trend, the Indonesian National Police (INP) has participated in several international donor-initiated training programs. The INP received much needed equipment, re-directed the focus of its forces to operations, and improved its relationship and interaction with NGOs dealing with drug users and rehabilitation. Yet these efforts fall well short of having a demonstrable impact on illicit drug trafficking, manufacturing, sales, and use. For example, the Narcotics Detective Unit of Greater Jakarta has a total of 150 investigators, who cover a city with a population of nearly 15 million. The head of this unit also doubles as the head of the Anti-Terrorism and Bomb Unit. Indonesia has legislation to support and enable an aggressive response to illicit narcotics activities. The police have the support of the judiciary and civil society in this regard, but they lack the organizational framework and certain fundamental capacities to effectively target the drug trade. The INP is limited not only by what assistance it can derive from major international donors, but also by its own inability to plan, develop, and implement a comprehensive drug prevention and enforcement program. Indonesia is a party to the 1988 UN Drug Convention.

## II. Status of Country

The drug of choice in Indonesia continues to be amphetamine-type stimulants (ATS), such as methamphetamine, MDMA (ecstasy), and especially “ice,” which is also known locally as “Shabu Shabu” (crystal methamphetamine). Police and NGO statistics indicate use of these and other narcotics has increased in 2001. Although use remains comparatively low per capita, heroin, cocaine, and marijuana use is reportedly up 90 percent from 2000. These drugs are readily available in all major urban areas, including schools, Karaoke lounges, bars, cafes, discotheques, night clubs, and, in increasing numbers, certain neighborhoods and villages becoming known for their tolerance of drug trafficking.

Informal reports and other anecdotal information received by the DEA indicate that marijuana continues to be harvested in North Sumatra, the Aceh area in particular. The INP alleges that the Free Aceh Movement (GAM), a separatist organization in Aceh, traffics in marijuana domestically to support its operations. However, the INP has produced no evidence to support this allegation. Nevertheless, arrests for distribution and possession of marijuana have increased significantly throughout the archipelago.

The coordinator of the National Anti Narcotics Movement (Granat), the most prominent drug prevention NGO in Indonesia, confirms that the use of heroin and opium derivatives is increasing, particularly in Jakarta. The INP Narkoba Unit, Directorate of Customs and Excise, and DEA believe heroin is smuggled into Indonesia from the “Golden Triangle” countries (Thailand, Burma, and Laos). Arrests and intelligence indicate that drugs entering Indonesia frequently transit Thailand, either from Bangkok to Jakarta or from Bangkok to Singapore to Jakarta. The INP also reports an increase in heroin and opium derivatives being smuggled into Jakarta and Bali from the “Golden Crescent” countries (Afghanistan, Pakistan, and Iran). From either area, the bulk of these narcotics are transiting Indonesia en route to Australia, the United States, and Western Europe. Drugs transiting Indonesia do not have a significant impact on the United States.

The INP and Directorate of Customs and Excise indicate that much of the heroin coming in from East and Southwest Asia is being transported by or on behalf of Nigerian traffickers. It is alleged they solicit, or in some cases marry, Asian women for the purpose of transporting heroin into and through Indonesia. Anecdotal information to the DEA, as well as news accounts, suggests that Africans (especially Nigerians)

are very closely scrutinized by Indonesian enforcement, and that the potential for them to be brutalized or killed during an attempted arrest is statistically greater than any other ethnic group.

There are reports from Narkoba of an increasing number of clandestine methamphetamine and ecstasy laboratories in Indonesia. Yet international trafficking of these drugs into Indonesia still represents the largest source for these stimulants. China is said to be the primary source of ecstasy and crystal methamphetamine, entering through any one of hundreds of entry points along Indonesia's extremely porous coastline. None of these entry points, including Jakarta, have adequate detection or enforcement mechanisms. Neither the Airport Police, nor the Navy, nor the Directorate of Customs and Excise is trained, equipped, funded, or otherwise adequately supported to deter or detect drugs. The same can be said of the entities responsible for domestic enforcement, the INP's Narkoba and Criminal Investigations Units.

Arrest statistics, information about users in rehabilitation, and hospital data indicate that cocaine is not widely used in Indonesia. However, one arrest at Soekarno Hatta Airport in June 2001 netted 15.2 kilograms of cocaine. By comparison, according to INP statistics, from 1997 through 2000, a total of half a kilogram was confiscated in Indonesia. The traffickers arrested in June were from Mexico.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Indonesia has not passed any new counternarcotics legislation since 1997. Nevertheless, the Indonesian counternarcotics code is sufficiently inclusive to enable the police, prosecutors, and the judiciary successfully to arrest and prosecute offenders. Enforcement officials lack training and experience in contemporary enforcement and investigative methodologies, and corruption is a constant problem.

In November 2000 Indonesia hosted the ACCORD conference in Bali, which brought together experts from ASEAN countries and China to discuss narcotics abuse/trafficking issues.

Indonesia plans to order its Narkoba Unit to assist the Airport Police. Narkoba's assistance to the Airport Police, a concept long supported by the DEA, will improve the Airport Police's enforcement capacity as well as enhance its in-service training capability. With previously allocated State Department funding support, training will be provided in support of this Indonesian initiative. The program will focus on management, logistical and tactical considerations, detection, interdiction, and use of canines and appropriate scanning equipment.

**Accomplishments/Law Enforcement Efforts.** Indonesia has no counternarcotics master plan. Until one is developed, the INP will have difficulty articulating its immediate and long-term counter narcotics enforcement goals. Nonetheless, the INP and other entities have taken some measures to address Indonesia's growing drug problem.

During a recent seminar in Jakarta, President Megawati called on the National Coordinating Board Against Narcotics (BKNN) to become operational. The chief of the INP, Da'i Bachtiar, has stated publicly that he will model BKNN after the United States DEA, and it will have specific responsibility for intelligence networking and investigation of international drug syndicates that impact Indonesia's counternarcotics efforts.

The Indonesian Navy, with support from President Megawati, has begun to act more aggressively against crimes committed within Indonesia's territorial waters, to include drug enforcement and interdiction. Furthermore, there are efforts under way to better define and clarify the roles of the Navy and the INP's Air and Sea Police to avoid duplicating efforts.

**Agreements and Treaties.** Indonesia is a party to the 1988 UN Drug Convention, the 1971 Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Indonesia signed the UN Convention against Transnational Organized

Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants in December 2000.

**Corruption.** Indonesia has laws to punish official corruption, including corruption by high level officials. Indonesian law also punishes anyone who tries to hamper the investigation or prosecution of a narcotics crime with five years in prison and a fine of Rupiahs 150,000,000 (approximately \$15,000). These laws are rarely enforced, and low salaries mean individual officials are susceptible to bribery.

#### **IV. U.S. Policy Initiatives and Programs**

**Bilateral Cooperation.** Indonesia and the United States continue to enjoy excellent law enforcement cooperation. For example, the DEA continues to have an excellent operational relationship with the INP's Narkoba Unit. The United States offered training to Indonesian officials through the regional International Law Enforcement Academy (ILEA) in Bangkok and the U.S. Justice Department International Criminal Investigative Training Assistance Program (ICITAP). The Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) provide funding for experts from many U.S. agencies to travel to Indonesia to provide assistance and training. INL also provides funding to support the full-time police advisor currently in Indonesia. The INP continues to work very closely with the DEA regional office in Singapore in all narcotic investigations. Several airport interdiction courses are scheduled for 2002, sponsored by the DEA.

**The Road Ahead.** Indonesia and the United States will continue to work closely together to improve capacity in Indonesia to enforce its counternarcotics laws and to administer justice more effectively. Both countries will continue to exchange information about narcotics traffickers operating in Southeast Asia. During 2001, the DEA will encourage the INP's Narkoba Unit to develop a counternarcotics master plan.

# Japan

## I. Summary

Although Japan is not a major producer of drugs, it is believed to be one of the largest methamphetamine markets in Asia, with approximately 600,000 addicts and 2.18 million casual users nationwide. During 2001, Japanese authorities seized 458.2 kilograms of methamphetamine. Japanese authorities also seized 29,340 tablets of MDMA (ecstasy), the largest seizure of its kind in Japan. Through November, authorities seized over 112,000 tablets. They also reported an increase in the amount of heroin imported from Southeast Asia. Japan is a party to the 1988 UN Drug Convention.

## II. Status of Country

Japan is not, nor is it likely to become, a significant producer of narcotics. The licit cultivation of opium poppies, coca plants, and cannabis for research is strictly monitored and controlled by the Ministry of Health, Labor and Welfare. Methamphetamine is Japan's most widely abused drug. Approximately 90 percent of all drug arrests in Japan continue to involve this substance. In spite of a significant methamphetamine abuse problem, there is no evidence of clandestine manufacturing in Japan. Ephedrine, the primary precursor for the manufacture of methamphetamine, is strictly controlled under Japanese law.

Authorities continue to estimate methamphetamine importation into Japan to be between ten and 20 metric tons per year (based on 2.18 million users consuming 11 grams per person annually). Japanese law enforcement officials have made record methamphetamine seizures in the last three years. Through November 2001, 458.2 kilograms of methamphetamine were seized. Single record seizures of 29,640 ecstasy tablets were also made during 2001. Authorities believe the majority of the methamphetamine smuggled into Japan is refined and/or produced in the PRC, the Philippines, Taiwan, and North Korea.

Methamphetamine trafficking remains a significant source of income for Japanese organized crime, and Japanese law enforcement officials report that the participation of the illegal immigrant population in drug trafficking activity has continued to increase. Japan also remains a transshipment country for the cocaine precursor chemical potassium permanganate to Mexico and South America. According to Japanese law enforcement authorities, importation of heroin from Southeast Asia to Japan increased in the final four months of 2001. However, the DEA's office in Tokyo does not view heroin consumption in Japan to be a significant problem compared to other illegal drugs. The National Police Agency (NPA) and Japanese Customs also reported a resurgence in use of marijuana and hashish imported into Japan from the Philippines and Thailand in 2001. However, as with heroin, marijuana and hashish use remains minor compared to methamphetamine use in Japan. Hallucinogens are controlled substances in Japan. Neither the possession, distribution, nor the importation of certain hallucinogenic plants is illegal in Japan, but efforts are underway to close this loophole.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In December 2001, the Japanese Diet enacted legislation which outlaws the importation, sale, distribution, and possession of Gamma Hydroxy Butrate (4-methyioamphetamine), aka roffies, rohypnol, or the "date rape drug."

The Ministry of Health, Labor and Welfare also began drafting a new law that would outlaw the importation, distribution, sale, and possession of certain hallucinogenic plants, with the aim of submitting implementing legislation in 2002.

**Accomplishments.** In December 2001, the United States and Japan held another round of negotiations on a mutual legal assistance treaty. The two sides hope to conclude negotiations on the treaty in 2002. Once it enters into force, the treaty is expected to expedite and strengthen law enforcement cooperation.

As an active member of the UNDCP major donors group, Japan provided important financial support to many UNDCP programs. Japan also participated in all major conferences conducted throughout the world that concerned narcotics trafficking in 2001.

**Law Enforcement Efforts.** While they seized less than the record amounts seized in 1999 and 2000, Japanese authorities seized a large quantity of methamphetamine (458 kilograms) in the first 11 months of 2001. Narcotics enforcement agents also made record seizures of ecstasy (29,640 tablets) in 2001.

Police counternarcotics efforts tend to focus on Japanese organized crime groups, which are the main smugglers and distributors of drugs. However, police and prosecutors have been hesitant to pursue cases in which the likelihood of a conviction is uncertain. In addition to smuggling and distribution activities, law enforcement officials are starting to pay increased attention to drug-related financial crimes. The Financial Services Agency received over 10,000 reports of suspicious transactions in 2001.

Between 1992, when the Asset Seizure Law took effect, and 1999, the NPA has seized a total of about U.S. \$7.23 million in drug proceeds in 82 investigations. However, the NPA and Customs advise that seizure statistics are no longer maintained. Japanese authorities seize money primarily as trial evidence. After conviction, judges may order the forfeiture of narcotics-related proceeds, but statistics on these forfeitures are not maintained.

**Corruption.** Japan has no known drug-related corruption.

**Agreements and Treaties.** Japan ratified the 1988 UN Drug Convention in 1992. Japan is a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. An extradition treaty and a customs mutual assistance agreement are in force between the U.S. and Japan. The U.S. and Japan completed another round of negotiations on a mutual legal assistance treaty in December, which the two sides hope to conclude in 2002. Japan signed the UN Convention against Transnational Organized Crime in December 2000.

**Cultivation/Production.** Although Japan is not a significant cultivator or manufacturer of controlled substances, it is a major producer of 60 types of precursor chemicals that have legitimate industrial uses. For example, Japan is one of only a handful of countries that produce ephedrine, a chemical used to create antihistamines. Ephedrine is also an essential ingredient in methamphetamine. Japan is a member of the Chemical Action Task Force (CATF) and controls 28 chemicals. The DEA country attaché in Japan, working closely with his Japanese counterparts, closely monitors end users of precursors.

**Drug Flow/Transit.** Almost all drugs illicitly trafficked in Japan are smuggled from overseas. According to the NPA, the PRC, the Philippines, Taiwan, and North Korea are principal sources.

**Domestic Programs (Demand Reduction).** Domestic programs focus primarily on interdiction. Drug treatment programs are small, and are generally run by private organizations. The Japanese government provides narcotics-related counseling designed to prevent drug use and supports the rehabilitation of addicts at prefectural Health Centers and Mental Health and Welfare Centers. Prefectural governments also employ part-time narcotics counselors. The Japanese government continued to support a number of drug awareness campaigns, including the five-year campaign drawn up in 1998 by the Headquarters for the Promotion of Measures to Prevent Drug Abuse, an office headed by the Prime Minister. This program is designed to inform the public about the growing use of stimulants in Japan, especially among junior and senior high school students. Under this plan, the Ministry of Health and Welfare, along with prefectural governments and a variety of private organizations, continued to administer national publicity campaigns using advertisements that run on television, radio, and electronic score boards used at major sporting events. The plan also promotes drug education programs at the community level, including one that

organizes talks between students and former narcotics officers, and another poster campaign that targets students attending high school baseball games.

### **IV. U.S. Policy Initiatives and Programs**

**U.S. Policy Initiatives.** U.S. goals and objectives include:

- conclusion of a mutual legal assistance treaty;
- strengthening enforcement cooperation, including participation in controlled deliveries and drug-related money laundering investigations;
- encouraging more demand reduction programs; and
- encouraging effective use of anticrime legislation and government agencies responsible for financial transaction oversight.

**Bilateral Cooperation.** U.S. and Japanese law enforcement officials continued to cooperate in 2001 to monitor the use of precursor and essential chemicals. However, joint money laundering investigations remain a goal.

**The Road Ahead.** The United States and Japan will continue to work to conclude negotiations on a mutual legal assistance treaty and to explore new cooperative counternarcotics initiatives.



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# Laos

## I. Summary

With an effective ban on opium production in Afghanistan in 2001, Laos was the world's second largest producer of illicit opium, although its production lagged well behind Burma's. For the 2001 growing season, the United States estimated Laos' potential production at 210 metric tons, the same level as in 2000. However, poppy cultivation decreased by five percent, from 23,150 hectares in 2000 to 22,000 in 2001. U.S. data indicates that Phongsali and Houaphan provinces continue to be the largest producers of opium poppy.

From a policy perspective, the Government of Laos (GOL) adopted a much stricter approach to drug control in 2001. In accordance with a prime ministerial order issued in late 2000, it outlined tough new measures for eliminating opium production, imposed the death penalty for certain drug-related crimes, and organized a national campaign to address the growing problem of methamphetamine abuse among teenagers. On the other hand, Lao efforts at law enforcement fell well short of these ambitious policy goals, and the Lao law enforcement authorities did not arrest any major drug traffickers. The GOL devoted few of its own resources to fighting drugs, relying overwhelmingly on the donor community.

In late 2000, the government formally committed itself to eliminating opium cultivation by 2006; in March, the Seventh Communist Party Congress moved up that deadline to 2005. In April, the government passed new legislation imposing the death penalty for certain crimes relating to drug production and trafficking. The GOL continued to work closely with the UNDCP to develop a master plan for opium elimination and to raise funds for that effort. The government also cooperated with the German government on several crop-control projects and in the area of demand reduction. In the Lao-American project area of Phongsali Province, construction continued on a 72-km road that will link remote, opium-cultivating villages and facilitate alternative crop substitution and market access. Development activities in public health, education, and agriculture began in some of those villages. New counternarcotics law enforcement offices (CNOs) were opened for Vientiane and Saignabouli. The amount of heroin and opium seized increased, and the Lao police provided some information to U.S. officials on a handful of cases. Police performance in general, however, continued to fall far short of goals. Counternarcotics police units need more training and better coordination, and the government must take action against major traffickers and officials who support them.

Laos 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 was the second largest producer of illicit opium in the world in 2001. Far less opium is produced in Laos than in Burma. According to the UNDCP, Laos also has the second highest rate of opium addiction in the world, behind Iran. Because Lao opium is grown by small-scale subsistence farmers without access to fertilizer, irrigation, or other agricultural improvements, average yields are usually less than half that found in neighboring Burma. The United States continues to support crop control and development programs in Laos in order to help the GOL change farmer practices before an improving economy or organization of opium cultivation by criminal syndicates boosts yields and overall production.

Laos' location next to one of the world's largest producers of opium and heroin (Burma), and its land borders with countries that combine important opium markets and ports on trade routes to Europe and America (China, Thailand, Vietnam, and Cambodia), make it an important route for drug trafficking. This importance is increasing as Laos' physical and communications infrastructures gradually improve. USG

assistance aims to help develop and upgrade Lao judicial and law enforcement institutions before regional trafficking syndicates overwhelm them.

The GOL has made public commitments to eventually becoming a party to the 1988 UN Drug Convention, and in the meantime, to attempt to abide by the provisions of that convention. In practice, progress toward this goal has been slow and uneven. The most problematic area for the Lao government in meeting the objectives of the convention is its failure to prevent and punish narcotics-related corruption.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In conformity with a prime ministerial order released in late 2000, all levels of government began to show new initiatives with respect to drugs, with the goal of eliminating opium by 2006. In March, the Seventh Party Congress of the Lao Communist Party set an even more ambitious deadline for opium elimination--2005. The government sponsored many seminars, training workshops, and public gatherings devoted to the topic of drug prevention. Demand reduction programs and activities were introduced in schools, factories, and programs of Lao women and youth unions. Counternarcotics sports events and concerts were held. The Ministry of Education, with assistance from the German government, developed educational curricula for demand reduction and distributed them in the schools. The Ministry of Information and Culture, also with German assistance, produced radio and television advertisements. The Prime Minister's Office launched a major new initiative regarding methamphetamine abuse.

The GOL continued to work closely with the UNDCP on a master strategy for opium elimination that includes alternative development, law enforcement, and demand reduction elements. A couple of projects under that strategy were started with USG funding. Most of the plan, however, remained on the drawing board because of lack of funds. The GOL provides little of its own funding to the drug effort except through provision of personnel. The government's reliance on international donors to support its counternarcotics programs makes those programs extremely vulnerable to developments outside the control of Laos. The government needs to devote more of its own resources to the fight against drugs.

**Accomplishments.** As in previous years, the GOL and UNDCP conducted an opium field survey of nearly 400 villages in 11 provinces of northern Laos. The survey produced new data that will aid the GOL and the donors in further refining their counternarcotics efforts. The Lao and Thai governments finalized a bilateral extradition treaty. The Lao showed increased willingness to discuss regional drug issues with their neighbors, and with outsiders. Lao counternarcotics officials attended a counternarcotics meeting in Phnomh Penh with Cambodian counterparts; hosted a conference of ASEAN counternarcotics police officials; and participated in the U.S. Customs Pacific Basin Conference, held in Honolulu. They traveled to Hanoi for meetings with Vietnamese counterparts and then hosted a reciprocal visit. Operational level quarterly meetings were held between provincial counternarcotics police from Luang Namtha and their Chinese counterparts from Yunnan Province.

Similar meetings were held between Phongsali and Yunnan counterparts. A Lao police official attended the DEA precursor chemical conference in Hong Kong. In November, the GOL hosted the fourth annual Thai-Lao annual ministerial meeting for drug control. Senior Lao police officials from provinces bordering Thailand met with their Thai counterparts to discuss measures for increasing drug interdiction cooperation. The Lao government also participated in a four-way Chinese counternarcotics initiative involving Thailand and Burma.

In October and November, respectively, new State Department-funded counternarcotics offices (CNOs) opened in Vientiane and Saignabouli. The GOL released the results of its surveys of drug abuse among youth in Luang Prabang and Savannakhet cities, conducted with assistance from UNDCP. These surveys provide important base-line data about the extent of such abuse, particularly of methamphetamine. In

October the government initiated a new nationwide fund-raising and awareness campaign to focus specifically on the problem of methamphetamine.

**Law Enforcement Efforts.** The Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) funds the administrative expenses of the Drug Control Department (DCD) of the Ministry of Interior (MOI). The DCD now supervises INL-funded counternarcotics police offices (CNOs) in ten provinces. The CNOs, along with other provincial police offices, reported 196 cases in 2001, resulting in the arrests of 350 suspects, including 6 foreign nationals. Most arrests were of small-scale traffickers. These cases involved the seizure of 52.3 kilograms of heroin, 478 kilograms of opium, 1,085,616 methamphetamine tablets, and 1,960 kilograms of marijuana. Trafficker vehicles, weapons, and cash were confiscated in some cases.

Seizures for heroin and opium increased markedly from 2000, by 63 percent and 510 percent, respectively. However, seizures were down for methamphetamine, even as indications were that trafficking of methamphetamine was increasing by orders of magnitude. Also, the police handled no more cases than they did in 2000, and arrested only half of the suspects they arrested in 2000. In the meantime, the governments of Vietnam and Thailand reported that they were seizing very large quantities of drugs incoming from Laos and arresting many Lao traffickers. Notwithstanding GOL and donor efforts to improve the counternarcotics network, police coordination, both within the GOL system and bilaterally with the U.S. government, remained weak.

**Corruption.** The Lao government states that it does not encourage or facilitate the production or distribution of illicit drugs. The GOL also has stated that it will not tolerate narcotics-related corruption. However, given Laos' poverty, the very low salaries of Lao government employees, and the growing evidence of significant trafficking inside Laos, it must be assumed that some officials and military personnel receive bribes from illicit drug trafficking. Drug traffickers in Laos reportedly are receiving protection from senior level officials who themselves may be involved. To the USG's knowledge, no Lao officials were arrested, prosecuted, or sentenced in 2001 for involvement in drug trafficking. A significant issue for many states is whether tough laws against corruption and drug trafficking can be applied to high-level, well connected Party and government officials.

**Agreements and Treaties.** The U.S. and Lao governments have signed a Memorandum of Understanding (MOU) on counternarcotics cooperation in crop control every year since 1990. Bilateral law enforcement project agreements have been signed annually since 1992. Both countries have expressed their intention to continue and expand this cooperation. Although the GOL does not have a mutual legal assistance or extradition treaty with the United States, it has in the past cooperated in deporting drug traffickers to the United States. The GOL has ratified bilateral extradition treaties with Vietnam and Thailand. A similar treaty with Cambodia is nearing ratification on both sides. Since 1998, Laos and Germany have been executing a three-year project agreement focusing on demand reduction. Laos also is 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 has articulated its commitment 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/Production.** Opium is produced in the ten northern provinces of Laos as a cash or barter crop and as a traditional medicine. It is also produced to supply the very large number of Lao opium addicts. The extreme isolation of most opium-producing communities and the absence of economic alternatives make opium an important crop for the area's subsistence farmers. USG 2001 crop estimates indicate a five percent decrease in poppy cultivation to 22,000 hectares. Potential opium production,

however, remained at 210 metric tons, the same as in 2000. Most of the heaviest production remained in the north, where USG and other donor crop control initiatives are targeted.

**Drug Flow/Transit.** The GOL's ability to control the flow of narcotics within the country and across its lengthy, porous borders is severely limited by lack of personnel, resources, expertise, and ready access to many isolated areas of the country. Effective control over borders with Thailand, Burma, China, Vietnam, and Cambodia exists only in the vicinity of major population areas, along principal land routes, and at established river crossings. As Lao road infrastructure improves, and as interdiction efforts on Burma's borders with China and Thailand grows more efficient, Laos is becoming a more popular route for illicit drugs. Vietnam and Thailand continued to report ever-increasing drug flows entering their territories via Laos. The U.S. Customs Service reported seizing a large number of parcels containing Lao-origin opium and heroin at U.S. ports of entry. U.S. Customs also seized two container shipments of Lao-origin wooden furniture containing illegal drugs. The Lao government was not able to provide any useful information to the U.S. regarding the two furniture seizures.

**Domestic Programs (Demand Reduction).** Opium addiction is still the main drug use problem in Laos, and the UNDCP estimates that Laos has an addiction rate that is second only to that found in Iran. Addiction is overwhelmingly a rural phenomenon and concentrated in the north of the country. Many addicts use opium because they have no access to health care. In its 2001 opium survey report, UNDCP estimates an opium addict population of 58,000 persons, down 5,000 persons from 1998. According to UNDCP calculations, 2.26 percent of the population above 15 years is addicted to opium. In the northern provinces alone, the addiction rate is 4.84 percent of the population above 15 years old. The GOL is putting great emphasis on detoxification programs for addicts, although implementation details are left to provincial administrations. The location of most addicts in remote, often inaccessible rural areas increases the cost and difficulty of treatment and follow up. In most cases, the police rather than public health officials are in charge of detoxification and rehabilitation.

The addiction problem is not limited to opium users. Laos is increasingly being affected by the trafficking of heroin, methamphetamine and amphetamine-type stimulants (ATS), which are plaguing the rest of Southeast Asia. The Lao government has become alarmed at the rate at which ATS addiction, unheard of in Laos until 1999, is taking root in Vientiane and some of the other larger cities. Vientiane Municipality formed a task force to consider ways of dealing with the growing ATS issue. The UNDCP is building a national drug demand reduction facility, which—contingent on further donor funding—eventually will be made up of an ATS treatment unit, an ATS rehabilitation and day care unit, and a training center for ATS and opium abuse.

According to a 1999 UNDCP survey of Vientiane student drug use, a full 17 percent of Vientiane teenagers have experimented with drugs of one kind or another, including methamphetamine. Similar UNDCP surveys conducted in 2000 indicated that methamphetamine use is also becoming significant in the cities of Luang Prabang and Savannakhet. The studies indicated that 5.5 per cent of teenagers in Luang Prabang and 7.6 per cent of teenagers in Savannakhet have used drugs at least once. Press articles and anecdotal evidence indicate that methamphetamine use is spreading to outlying villages.

## IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** The United States focuses on helping the GOL achieve two primary counternarcotics objectives: elimination of opium poppy cultivation, and suppression of illicit drug and precursor chemical trafficking. The USG is addressing the first goal through bilateral crop control projects, first in Houaphan province and now in Phongsali province. The USG works closely with the UNDCP and other donors of development assistance to ensure that counternarcotics objectives are included in all rural development programs in northern Laos. Suppression of trafficking is pursued through support of special counternarcotics police units and the Lao customs service. Additional support has been provided to the Lao National Commission for Drug Control and Supervision (LCDC), which has overall policy direction for counternarcotics activities under the Office of the Prime Minister.

**Bilateral Cooperation.** In 1999, the USG began funding a crop control and development project in Phongsali, one of Laos' most important opium-producing provinces. This project is modeled after the successful Lao-American Project in Houaphan province. The USG has supported the GOL's plan to establish counternarcotics law enforcement units in each province; thus far, 10 such units have been established. The USG also is planning to support a new Lao initiative in the area of demand reduction for methamphetamine abuse, particularly among teenage students. In August 2001, the DEA presented two days of training for Lao counternarcotics police. In November, Lao customs officials worked with a DEA official to identify suspect packages at the national post office facility in Vientiane. More DEA and U.S. Customs training is planned for 2002. Lao police, customs, and justice officials have been active participants in US-funded training sessions at the International Law Enforcement Academy (ILEA) in Bangkok. Approximately 200 Lao officials have been trained at ILEA since the academy began operations in February 1999.

**The Road Ahead.** The GOL is committed to eliminating commercial opium cultivation in advance of the UNGASS 2008 (UN General Assembly Special Session on Drugs) target date. The GOL also has committed to the UNDCP/ASEAN plan of action for eliminating drug use around the region by 2015. In order to meet these goals, Laos must change the practices of highland farmers and upgrade its law enforcement capacity, before social and economic modernization exacerbates the problems of narcotics production and trafficking. In support of GOL efforts, the USG will continue to provide crop control and development assistance to northern Laos, with particular emphasis on cooperation with UNDCP and other interested donors. U.S. assistance to a network of specialized counternarcotics law enforcement units should gradually increase Lao interdiction capabilities. The GOL needs to improve coordination between these units and other law enforcement bodies to translate capabilities into more significant drug seizures, however. The GOL also must make efforts to arrest major traffickers and the officials who support them. The USG is committed to supporting GOL counternarcotics efforts, in recognition of gradual GOL progress in this area and of the many development challenges that hamper the GOL's ability to achieve its counternarcotics objectives on its own. Future counternarcotics achievements will depend on the GOL's effective use of both its own resources and those of interested donors.

# Laos Statistics

(1993–2001)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Opium<sup>1</sup></b>									
Potential Harvest (ha)	22,000	23,150	21,800	26,100	28,150	25,250	19,650	18,520	26,040
Cultivation (ha)	—	—	—	—	28,150	25,250	19,650	18,520	26,040
Potential Yield (mt)	200	210	140	140	210	200	180	85	180
<b>Seizures</b>									
Opium (mt)	.478	0.078	0.226	0.442	0.200	0.216	0.194	0.054	0.054
Cannabis (mt)	1.96	1.86	2.19	0.41	4.16	1.18	0.64	6.14	0.26
Heroin (mt)	0.052	0.020	0.015	0.080	0.072	0.016	0.043	0.062	0.001

<sup>1</sup> Narcotics and law enforcement statistics have not been kept in the past by the Government of Laos. Although the Counternarcotics Committee is now charged with the responsibility, most of the statistics available have been gleaned from the Lao press.

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# Malaysia

## I. Summary

Malaysia does not produce a significant amount of illegal drugs. Heroin and other drugs from neighboring Southeast Asian countries transit Malaysia, but there is little evidence that a significant amount reaches the United States by way of Malaysia. Malaysia has not been designated as a major drug-transit country since 1998, but it remains a country of concern to the United States. Domestic drug abuse, especially of synthetic drugs, is growing. Malaysia's competent counternarcotics officials and police officers have the full support of senior government officials. Overall, narcotics-related arrests and seizures increased in 2001. A significant trend for this year is the sharp increase in seizures of heroin and MDMA (ecstasy) pills. Cooperation with the United States 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 and opium from the nearby Golden Triangle area transit Malaysia, but there is little evidence that a significant amount of this reaches the U.S. market. Increasing amounts of other drugs, primarily psychotropic pills (amphetamine-type stimulants or ATS) and crystal methamphetamine, also transit Malaysia, though Malaysia is not a major drug-transit country for these substances either. Accurate statistics on domestic drug abuse are difficult to obtain, but Malaysia's national narcotics agency indicates there are approximately 212,000 drug abusers in the country. Anecdotal reports indicate that domestic drug abuse, primarily of heroin, psychotropic pills (ATS, including ecstasy and crystal methamphetamine), is growing. One of the latest new drugs is an inhaled cocktail of heroin and crystal methamphetamine. According to the Ministry of Health, there were no known cases of precursor chemical diversion this year. In December 2000 the Ministry of Health tightened controls on all previously unregulated chemicals listed in Table I and Table II of the 1988 UN Drug Convention. The Ministry is pursuing legislation to increase penalties relating to the diversion of precursor chemicals.

## III. Country Action Against Drugs in 2001

**Policy Initiatives.** The National Narcotics Agency (NNA) is the policy arm charged with implementing Malaysia's counternarcotics strategy. In response to increased seizure and abuse of methamphetamine in the previous year, the NNA expanded the scope of a 2000 demand reduction and public awareness campaign against ecstasy to include all types of methamphetamine. In cooperation with the NNA, the Malaysian Chinese Association (MCA), a predominantly ethnic Chinese political party that forms part of the government's ruling coalition, aimed to increase public awareness of other synthetic drugs beyond well-known ecstasy.

The NNA is also coordinating demand reduction efforts with various cabinet ministries to target vulnerable populations, including long-haul truckers, impoverished fishing communities, and residents of federal land grant settlements in provincial areas. The NNA coordinated with the Ministry of Transportation to create drug testing checkpoints at border areas and ad hoc road blocks to target long-haul truckers using methamphetamine. The NNA and the Agriculture Ministry's Fisheries Department are targeting methamphetamine users in fishing communities where hard physical labor and long hours at sea invite methamphetamine use. Residents of federal land grant areas are also being targeted because of the increased incidence of drug abuse and trafficking in these settlements.

**Accomplishments.** A solid institutional and policy foundation supports Malaysian counternarcotics efforts. Prime Minister Mahathir again labeled drug abuse and trafficking as "enemy number one" at the

November 2001 summit of the Association of Southeast Asian Nations (ASEAN). Increased seizures of ecstasy in 2001 are attributable to coordinated police efforts to target ATS abuse.

**Law Enforcement Efforts.** Malaysian police have continued to investigate and prosecute narcotics crimes vigorously, identifying abusers and traffickers, and limiting the distribution, sale, and financing of illicit drugs in Malaysia. Narcotics arrests and seizures for the first 11 months of 2001 were generally above 2000 levels. Heroin, ecstasy, and opium seizures rose sharply. During 2001, law enforcement officers seized 227.7 kilograms of heroin, compared to 109.2 kilograms seized the previous year. Malaysia's largest heroin seizure for the year occurred in July, when police seized 22.7 kilograms of #3 heroin and 4.1 kilograms of heroin base. Also in July, the Royal Malaysia Police and Royal Customs and Excise Department jointly launched "Ops Ecstasy II" targeting entertainment establishments that tolerate and or promote ecstasy use. Ecstasy seizures for the year increased seven times over total seizures in 2000. Drug-related arrests in 2001 totaled 22,797 persons, a 29 percent increase over total arrests the previous year. Narcotics-related detentions without trial under Malaysia's "Special Preventive Measure" increased to 1820 in 2001 from 1,614 in 2000. Seizures of clandestine laboratories in 2001 increased to 17, up from nine seized in 2000. Almost two metric tons of cannabis were seized in 2001. Malaysian counternarcotics efforts increasingly emphasized interdicting the supply of drugs from Burma and the need for law enforcement cooperation to stem drug flows.

**Corruption.** Malaysia has an anticorruption agency with no power to prosecute, but with the power to investigate independently and make arrests. No senior officials were arrested for drug-related corruption in 2001 and there was no evidence that the government tolerates or facilitates the production, distribution, or sale of illegal drugs, or the laundering of the proceeds of illegal drug transactions.

**Agreements and Treaties.** Malaysia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The U.S.-Malaysia Extradition Treaty came into force in 1997. The Malaysian police are cooperative with U.S. officials in cases that may ultimately lead to extradition of a suspect to the United States. The Government of Malaysia is considering legislation that will allow for bilateral negotiations on a mutual legal assistance treaty. The United States has an effective bilateral memorandum of understanding on counternarcotics cooperation with Malaysia.

**Drug Flow/Transit.** Malaysia's geographic proximity to the heroin production areas and methamphetamine laboratories of the Golden Triangle provides for smuggling routes across Malaysian borders, primarily destined for Australia. While heroin and methamphetamine transiting Malaysia do not appear to make a significant impact on the U.S. market, there are indications that groups of third-country nationals are using Malaysia as a transit point for heroin bound for the United States.

**Domestic Programs (Demand Reduction).** A demand reduction program initiated in public schools and a "drug-free workplace" prevention program initiated in 1999 continued in 2001. Improvements to public drug rehabilitation programs continued in 2001. Fifty percent of publicly funded drug treatment centers are adopting the therapeutic community approach for treating drug addiction. Five existing facilities adopted the new approach in 2001 and a new therapeutic community treatment center in the Borneo State of Sabah is scheduled to open in March 2002. Government statistics indicate that 9,082 persons are undergoing treatment at Malaysia's 27 public rehabilitation facilities. The government is also licensing nearly 300 additional private medical clinics to rehabilitate drug users.

## IV. U.S. Policy Initiatives and Programs

U.S. goals and objectives in the coming year are to:

- Encourage the Government of Malaysia to develop an effective financial intelligence unit to combat money laundering.
- Continue to pursue a mutual legal assistance treaty.



- Urge the government to enact anti-conspiracy laws to strengthen Malaysia's counternarcotics efforts.
- Continue and expand successful cooperation in law enforcement.
- Encourage the government to increase penalties for diversion of precursor chemicals.

**Bilateral Cooperation.** The United States continued to provide counternarcotics training to Malaysian officials at the International Law Enforcement Academy (ILEA) in Bangkok. Training provided at the ILEA in Bangkok addressed topics such as chemical precursors, financial investigations (money laundering), controlled deliveries, and operational planning of narcotics investigations. The United States and Malaysia continued to cooperate under the bilateral memorandum of understanding on counternarcotics cooperation. The United States also funded training in 2001 for 60 local drug treatment professionals on implementation of the therapeutic community approach in public drug rehabilitation centers.

**The Road Ahead.** U.S. law enforcement agencies will continue to cooperate with Malaysian authorities to monitor and interdict drugs transiting Malaysia. U.S.-funded counternarcotics training for local law enforcement and modest assistance for domestic demand reduction and TC (therapeutic community) treatment programs will continue. The United States will continue to pursue a mutual legal assistance treaty and encourage the government of Malaysia to develop an effective financial intelligence unit as part of Malaysia's effort to combat money laundering.

## Mongolia

Drug trafficking and abuse are not widespread in Mongolia, but have continued to rise and have drawn the attention of the government and NGOs. Mongolia's young, burgeoning urban population is especially vulnerable to the growing drug trade. The government believes that Mongolia must act quickly to develop a national drug strategy to prevent drug availability and use from becoming acute problems. The Government of Mongolia approved the National Program for Fighting Narcotics and Drugs in March 2000. The National Council headed by the Minister of Justice coordinates the implementation of this program. The program is aimed at preventing drug addiction, drug-related crimes, creating a legal basis for fighting drugs, elaborating counternarcotics policy, and raising public awareness of this issue.

Mongolia's long, unprotected borders with Russia and the People's Republic of China are vulnerable to all types of illegal trade, including drug trafficking. Illegal migrants, mostly traveling from China through Mongolia to Russia and Europe, sometimes transport and traffic drugs. Police suspect that trafficking in persons and prostitution are also connected to the drug trade.

The government has made the protection of Mongolia's borders a priority. U.S.-sponsored projects to promote Mongolia's participation in regional law enforcement conferences and training have provided some assistance. Mongolia's ability to patrol its borders, detect illegal smuggling, and investigate transnational criminal cases is hindered by a lack of financial and technical resources. Mongolia is a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Mongolia is not a party to the 1988 UN Drug Convention, but in January 2001, the Parliament of Mongolia passed a law relating to the issue of Mongolia becoming a party to the 1988 UN Drug Convention. The Government of Mongolia attempts to meet the goals and objectives of international initiatives on drugs, where possible. Mongolia and the United States have in force a customs mutual legal assistance agreement.

Sporadic reports indicate that the availability and abuse of marijuana, heroin, amphetamines, and over-the-counter drugs have increased. The Mongolian government, now alert to precursor chemical production and export issues, has closed suspected facilities, but foreign nationals continue to be interested in the production, export, and transit of precursor chemicals in Mongolia, suggesting that they may be assessing the quality/effectiveness of Mongolia's controls. Mongolian public corruption and financial crimes appear unrelated to narcotics activities. The weakness of the legal system and financial structures, however, leaves Mongolia vulnerable to exploitation by drug traffickers and international criminal organizations, particularly those operating in China and Russia.

Growth in international trade and the number of visitors to Mongolia increase concerns about a rise in transnational organized crime. The presence and activities of organized crime elements from Russia and China are difficult for Mongolian law enforcement agencies to detect.

The Mongolian government and law enforcement officials have increased their participation in regional fora focused on crime and drug issues. For example, discussions are underway for Mongolia to join the Asia-Pacific Group Against Money Laundering. Domestic NGOs work to fight drug addiction and the spread of narcotics, as well as trafficking in women. International donors are working with the government to help Mongolia develop the capacity to address narcotics and related criminal activities before they become an additional burden on Mongolia's development. U.S. assistance in these efforts has included international visitor programs on transnational crime and counternarcotics, as well as joint operations and training by regional representatives of the DEA, the U.S. Customs Service, the Internal Revenue Service, and the U.S. Secret Service.

## North Korea

**Summary.** Although there were fewer seizures of narcotics with a clear North Korean connection this year, most observers continued to view narcotics coming from North Korea as a significant problem for Japan and Taiwan. Narcotics with a North Korean connection appear a more modest problem for Russia, as drug trafficking seems to be concentrated in certain areas of Russia's far-eastern territories. There continues to be no evidence that narcotics originating in or transiting North Korea reach the United States. Because there also continued to be no concrete evidence of illicit opium cultivation in North Korea in excess of 1,000 hectares, North Korea was not placed on the list of major illicit drug producing or major drug-transit countries in 2001. North Korea nonetheless remains a country of concern to the United States.

**Drug Trafficking Linked to North Korea.** There are regular seizures of relatively small amounts of methamphetamine and heroin along the North Korean/PRC (People's Republic of China) border. Seizures are made from North Korean nationals traveling to China, at least some of whom are seeking refuge in a region inhabited by Korean ethnic groups on the Chinese side of the border. Typical seizures are on the order of a few hundred grams to a kilogram. Besides this low-level trafficking, several major seizures with a North Korean connection were reported:

- On December 28, 2000, officials from the Ministry of Justice Investigation Bureau on Taiwan seized 134 kilograms (almost 300 pounds) of heroin in a warehouse in Taipei. The person arrested in connection with this seizure identified North Korea as the source of the drugs.
- In two separate incidents during April 2001, authorities on Taiwan seized 65.6 kilograms of methamphetamine on April 12 in Pingtung County, and 42 kilograms of methamphetamine on April 16 in Kaohsiung. Cumulatively, these seizures amounted to almost 237 pounds of methamphetamine. The "street value" of these drugs in Taiwan is estimated at over U.S. \$3 million. Both seizures involved fishing vessels that smuggled the drugs into Taiwan after receiving them via at-sea transfers in the Taiwan Strait. Based on questioning of those apprehended in connection with the seizures, police believe the drugs originated in North Korea.
- Japanese authorities seized 4.6 kilograms of methamphetamine from two couriers from Taiwan entering Osaka on a flight from Guangzhou, China on April 15, 2001. There are indications the drugs seized came from refineries in the PRC and North Korea.
- On May 4, 2001, an ethnic Korean with Chinese nationality was arrested for trying to smuggle 30 kilograms of methamphetamine into Pusan, South Korea, concealed in a container of North Korean kidney beans. The shipment came from Dalian, China onboard a Panamanian-registered freighter called the "Sinoco Tenjin." Investigators believe the drugs came from North Korea. The suspect was also charged with sending 8.9 grams of methamphetamine and 4.3 grams of heroin, as samples, to traffickers in South Korea in January 2001. The 30-kilogram methamphetamine seizure was one of the largest in recent Korean enforcement history.
- On January 7, 2002, Japanese enforcement officials seized 150 kilograms (330 pounds) of methamphetamine aboard a vessel with a crew of PRC nationals. Under questioning, the crew of the vessel said the drugs were picked up at sea from a North Korean vessel.

One trend that these seizures reflect is a closer, more reciprocal, and cooperative relationship between North Korean-based traffickers and ethnic Chinese traffickers with the objective of exploiting markets in third countries like Japan and South Korea. Rather than just direct sales of drugs reported to originate in

North Korea, there are now more reports of what appear to be “joint ventures” with drug traffickers from Taiwan and the PRC to exploit markets in third countries. Another example of a more reciprocal relationship between North Korea-based drug traffickers and Chinese drug traffickers is a case involving an attempt to smuggle a large quantity of heroin through the Fiji Islands. Enforcement officials investigating the case learned that an ethnic Chinese drug trafficker attempted to route large quantities of heroin through North Korea to avoid seizure.

In addition to the above seizures, there have been reports from Russia, Japan, South Korea, and elsewhere, attributed to well-informed law enforcement officers, indicating their belief that North Korean nationals have continued to be involved in drug trafficking. For example:

- A March 1, 2001 report quoted Vladimir Davydov, chief of the Drug Smuggling Department of the Russian Customs Agency’s Far East Office as saying that North Korean nationals were smuggling “industrially refined” opium to the Russian Far East by rail, and probably also in diplomatic bags. This report mentioned Davydov’s statement that Russian police regularly confiscate drugs from North Korean nationals working in Russia, and pointed to a specific seizure in 2000 of 20 pounds of opium from North Korean loggers near the Russian town of Tynda.
- A Taiwan prosecutor investigating drug smuggling believes that North Korean criminals purchase raw materials in China, manufacture drugs in North Korea, and sell them to wholesale buyers elsewhere. This prosecutor reports that a suspect in a drug smuggling incident boarded an armed North Korean vessel in international waters, where he picked up methamphetamine that was subsequently smuggled into Taiwan.
- On March 2, 2000, the Japanese National Police Agency issued an advisory to all Japanese police officers to maintain a heightened alert for drugs entering Japan from North Korea.

**Allegations of State-Sponsored Drug Trafficking.** Although specific allegations that North Korea engages in state-sponsored drug trafficking and other forms of criminality for profit and to fund state programs such as weapons development are difficult to assess, the volume of such reports is troubling. The North Korean government attributes any drug trafficking and other criminal activities that may occur to individual law breakers or criminal organizations. Given the tight controls in place throughout North Korea, the continuing seizures of amphetamines and heroin suspected of originating from North Korea in Taiwan, in Japan, and now in South Korea raise the question how any entity other than the state could traffic in such large quantities of illicit drugs. Reported drug transfers aboard North Korean vessels also highlight possible state involvement.

Allegations of state complicity in the illicit narcotics trade and other criminal enterprises by North Korea remain of profound concern, as the United States seeks to determine whether the North Korean government 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, the United States has not been able to determine the extent to which North Korea is involved in drug manufacture and trafficking. The United States has also been unable to determine conclusively whether North Korea directs a range of other criminal activities.

**Alleged Opium Cultivation, Heroin Production, and Trafficking.** Sources of information about alleged North Korean opium cultivation and alleged heroin production are quite limited. North Korean officials admit that opium is grown in North Korea, but maintain that it is used for medicines and painkillers. Defectors routinely report that illicit opium poppy cultivation and state-directed refining of opium into heroin occur throughout the northern part of the DPRK, but many of these reports are now almost a decade old. Estimates of the area under cultivation range from 4,200 hectares (10,378 acres) to 7,000 hectares (17,300 acres), and estimates of opium production range from 30 metric tons to 44 metric

tons annually. Based on those estimates, the expected yield would be approximately 3-4.5 metric tons of heroin, if all opium were used exclusively to produce heroin.

These estimates have not been confirmed, however, and the amount of opium used for medicines is unknown. As noted, reports of extensive opium cultivation in North Korea are dated. Agricultural problems in North Korea, including flooding and shortages of fertilizer and insecticides, suggest that current opium production might well be below these estimates. There has also been a very clear shift in Asian drug abuse away from opium toward amphetamine-type stimulants (ATS). North Korean exploitation of the regional ATS market in Asia may also suggest a decline in opium cultivation and heroin production in North Korea. Nevertheless, seizures of heroin linked to North Korea in the PRC and Russia, as well as on Taiwan over the past several years continue to lend credence to reports that opium is illicitly grown there and refined into heroin.

Over the coming year, the United States will continue to monitor North Korea to determine the extent of any cultivation or production of illicit narcotics there, and to assess the effect that North Korean drug trafficking has on the United States. If reports that there is illicit opium poppy cultivation of 1,000 hectares or more, or that heroin or methamphetamine produced in or transiting North Korea significantly affects the United States can be confirmed, North Korea will be added to the list of major illicit drug producing and major drug-transit countries.

# Palau

## I. Summary

Palau is not a major drug trafficking or producing country or a source of precursor chemicals for production of narcotic drugs although the possibility for drug transit exists. To curtail drug use, Palau has ongoing counternarcotics campaigns as well as drug treatment and counseling programs.

Palau is not a party to the 1988 UN Drug Convention, but it is a party to the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

## II. Country Status

The Republic of Palau is an island nation of approximately 19,000 with a constitutional government, whose structure is comparable to that of the United States. Palau is a former trust territory of the United States that became independent on October 1, 1994. There is some crime in Palau, but it is not a major drug trafficking or producing country or a source of precursor chemicals for production of narcotic drugs.

Palau is an attractive tourist destination, especially for divers. The island has good air connections to many regional destinations. The possibility for drug transit exists. Authorities are aware of this danger and take steps to counter it through attentive enforcement. The USG has no evidence that any high-level official in Palau facilitates drug trafficking for personal gain. Small-scale corruption which might facilitate trafficking is a possibility, but Palau authorities, focused on maintaining Palau as an attractive tourist destination, are attentive to corruption and punish it when it comes to their attention.

## III. Country Actions Against Drugs in 2001

In efforts to curtail the drug problem, a counternarcotics trafficking law went into effect on July 13, 1997, with a mandatory 25-year sentence for trafficking of methamphetamine. Furthermore, the Ministry of Justice and the Ministry of Public Health have ongoing counternarcotics campaigns as well as drug treatment and counseling programs.

## IV. U.S. Policy Initiatives and Programs

U.S. law enforcement officials have conducted training for local law enforcement officials. Cooperation in law enforcement between the United States and Palau is mutual and professional.

## **Papua New Guinea, Solomon Islands, and Vanuatu**

Drug trafficking does not occur on a significant scale in Papua New Guinea, the Solomon Islands, or Vanuatu. Drug abuse among urban youth is of growing concern, especially in Papua New Guinea. There are no reliable quantitative measures of either trafficking or abuse in any of these three countries. Beyond the regular activities of their financially strapped law enforcement agencies, none of the three countries has a centrally directed narcotics control strategy. Papua New Guinea is a party to the 1961 UN Single Convention, the 1972 Protocol amending the Single Convention on Narcotic Drugs, and the 1971 UN Convention on Psychotropic Substances. The Solomon Islands is a party to the 1961 UN Single Convention on Narcotic Drugs and the 1972 Protocol amending the Single Convention.

There is no evidence of significant levels of illicit drug production or transit in Papua New Guinea, the Solomon Islands, or Vanuatu. Cases of potential narcotics transshipment occasionally come to light in Papua New Guinea, but there is no persistent pattern. In Papua New Guinea, however, there is mounting anecdotal evidence of small-scale marijuana cultivation and export. This activity may also be related to smuggling of small arms into the country. None of the three countries is a source of precursor chemicals.

In 2000, a local Papua New Guinea (PNG) firm allegedly made arrangements to import pseudo-ephedrine in quantities far in excess of legitimate domestic requirements. Government authorities revoked the import authorization when they discovered the irregularities in its issuance. The potential involvement of organized drug-traffickers in this case remains a subject of further investigation by PNG law enforcement agencies.

Due to the very limited extent of drug trafficking and abuse in Papua New Guinea, the Solomon Islands, and Vanuatu, law enforcement agencies have not established separate initiatives for countering cultivation, production, and distribution of illegal drugs. Similarly, asset seizure, extradition, and mutual legal assistance in narcotics cases occur too infrequently to form the basis for a meaningful assessment of the governments' performances in these areas. In general, however, the law enforcement agencies of all three countries have consistently shown themselves to be willing to cooperate with other countries on narcotics enforcement as needed. There is no evidence of narcotics-related corruption in these countries.

# The Philippines

## I. Summary.

Despite stiff penalties for those convicted of drug trafficking, the Republic of the Philippines (RP) continues as a consumer, transit point, and producer of crystal methamphetamine and marijuana, as well as of smaller amounts of other illegal narcotics. In 2001, President Gloria Macapagal-Arroyo announced that combating drug trafficking and abuse had become a priority for her administration. The USG provided information and assistance that led to important arrests and drug seizures in 2001. Local law enforcement officials estimate that there are 1.8 million drug users in the RP, and that the illegal industry earns over \$5 billion a year.

The Government of the Philippines (GOP), with advice from the USG, is reviewing options for restructuring its law enforcement agencies to bolster effectiveness in combating drug trafficking. Legislation to create a single drug enforcement agency modeled after the U.S. DEA has made it through committees in both the Philippine House and Senate, and has been announced by the Administration as a legislative priority for passage by March 2002. Legislation on asset seizure and forfeiture has not yet been formulated. The RP is a party to the 1988 UN Drug Convention.

## II. Status of Country

According to local authorities, there are approximately 1.8 million drug users in the Philippines (out of a total population of about 80 million), and the illegal drug trade is estimated to generate more than \$5 billion a year (equivalent to eight percent of domestic economic output and a third of the GOP's yearly central government budget).

Crystal methamphetamine, known locally as "shabu," is the drug of choice in the Philippines, and generates more than \$4 billion per year in illegal revenue, according to estimates by local authorities. The production of methamphetamine is a growing problem, but the majority consume in the Philippines is still smuggled in from surrounding countries, primarily the People's Republic of China (PRC). The Philippines is also a transshipment point for further export of "shabu" to Japan, Australia, Korea, the United States, Guam, and Saipan, but not to the United States in quantities large enough to have a significant impact. Precursor chemicals for producing crystal methamphetamine are smuggled into the Republic of the Philippines (RP) with relative ease. The Philippine National Police (PNP)—working with the National Bureau of Investigation (NBI) and the National Drug Law Enforcement and Prevention Coordinating Center (NDLEPCC)—has organized specialized units to locate and dismantle clandestine laboratories, with some success.

The RP is also a producer and exporter of marijuana, but the United States is not a major destination. Local authorities estimate that marijuana sales generate about \$900 million per year. Stemming production is difficult owing to topography, corruption, and the lack of effective or well-funded government countermeasures. Marijuana growers generally cultivate in areas that are inaccessible by vehicles, and/or controlled by insurgent groups. The Philippines is not a significant producer of other drugs, though the drug MDMA (ecstasy) accounts for about \$50 million of the illegal drug market.

Although law enforcement efforts continue to work to limit the use of Philippine airports as transshipment points for illegal drugs, seizures in the U.S. mainland, Guam, and the Philippines indicate that drugs continue to transit the Philippines.



### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Macapagal-Arroyo administration has made combating the use and trafficking of illicit drugs one of its priorities, and is continuing efforts to create an umbrella counternarcotics agency modeled on the DEA. Passage of legislation creating such an agency has been made an administration goal for the first quarter of 2002. The administration is also seeking appropriate legislation to meet objectives of the 1988 UN Drug Convention and to give the proposed drug enforcement agency the necessary tools to carry out its mandate.

Opposition to relaxation of the RP's tough bank secrecy laws is also an impediment to enactment of lacking asset seizure and forfeiture laws. Opponents' resistance is based in part on suspicion that the GOP may misuse information gained from the lifting of bank secrecy, but at least some of the opposition comes from criminal elements who would be the target of any new law. The administration is also seeking passage of legislation authorizing consensual and non-consensual eavesdropping tools that are essential to conducting effective conspiracy investigations.

In 1999, the Congress passed legislation reorganizing the PNP and authorizing increased pay and training for officers. The law, Republic Act 8551, enables greater focus on counternarcotics efforts, but, unfortunately, the government has yet to allocate sufficient funding to implement these changes.

Other legislation relating to narcotics, proposed or pending in 2000, was resubmitted to the Congress in 2001, but little action was taken. Presently, there are numerous bills pending in Congress relating to drug law enforcement. In addition to the lack of necessary legislative tools, the Philippines faces some basic law enforcement problems, including a weakness in complex investigative techniques and intelligence collection. These problems are exacerbated by corruption, the lack of resources, and the competing needs of other government programs.

The GOP has been active in promoting the establishment of an ASEAN transnational crime center in the country. If agreed to by ASEAN, the center would seek to enhance policy coordination and intelligence sharing among ASEAN members to combat transnational crime networks, targeted on drug traffickers and money laundering. However, in 2001 this initiative lost momentum due to lack of a final agreement by ASEAN on a target date for implementation.

**Accomplishments.** The Dangerous Drugs Board (DDB) has a precursors and essential chemicals unit which has now established a database of all legitimate chemical manufacturers in the Philippines and has conducted site and records inspections of these companies. This work forms the basis for future progress to reduce the ease with which precursors enter and leave the Philippines now. (See the "Law Enforcement" section below for a discussion of operations conducted against clandestine laboratories.)

The NDLEPCC is promoting the "Kill Droga" program as a demand reduction vehicle throughout the country. The Drug Abuse Resistance Education (DARE) Philippines program is still in place and has been successful in reaching thousands of students since its inception. Also, the Philippine Department of Justice's Parole and Probation Administration provides rehabilitation of convicted narcotics offenders.

The DDB participates with the NDLEPCC on matters pertaining to control of dangerous drugs. The DDB has agreements with the Department of Agriculture, the Department of Interior and Local Government, and other relevant agencies aimed at implementing 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 2001, counternarcotics officers eradicated approximately 8.3 million marijuana plants and seedlings.

**Law Enforcement Efforts.** President Macapagal-Arroyo has placed a number of well-qualified officials in key judicial and law enforcement positions and has given them a clear mandate to act against illegal drugs. The GOP's drug enforcement efforts have been directed by the NDLEPCC since January 1999. The center has coordinated the activities of the PNP Narcotics Group, the NBI, and other GOP agencies

involved in drug law enforcement. Additionally, the Philippine Center for Transnational Crime (PCTC), established in 1999, focuses the country's enforcement efforts against international and domestic crime.

Philippine law enforcement officials arrested 32,227 individuals for drug use, distribution and financing violations in 2001. Over \$78,000,000 (approximate local value) worth of illegal drugs were seized in more than 36,000 counternarcotics operations. The total included over 1,561 kilograms (\$62.4 million) of methamphetamine seizures (down about ten percent from last year) and over \$14.4 million of marijuana plants and products. The two largest methamphetamine seizures in 2001, carried out with DEA assistance, were 510 kilograms in October and 350 kilograms in November (seven individuals were arrested as a result).

PNP counternarcotics officers successfully located and destroyed two clandestine crystal methamphetamine-producing laboratories in 2001 (one in April and one in November). In the April operation, ten PRC nationals were arrested, and 167.6 kilograms of methamphetamine was seized (53.6 kilograms of finished product and 114 kilograms of unfinished product).

**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. However, there were some arrests and prosecutions of law enforcement and military officials for narcotics-related corruption in 2001. Efforts are underway to strengthen internal controls within the PNP, and GOP officials are studying U.S. DEA vetting procedures as part of a possible model for establishing the proposed drug enforcement agency.

**Agreements and Treaties.** During her state visit to China in October 2001, President Macapagal-Arroyo signed three documents related to drug trafficking: a bilateral extradition treaty, a MOU on combating transnational crimes, and a MOU on preventing the cultivation, production and abuse of illegal drugs. The U.S.-GOP extradition and mutual legal assistance treaties of 1996 are functioning. The Philippines is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The Philippines has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** In addition to the importation/smuggling of methamphetamine (see below), this drug is also manufactured in multiple hundred-kilogram quantities inside the RP. The main chemical used in the production of methamphetamine, ephedrine, is commonly smuggled in from the PRC by boat in large quantities to isolated or semi-isolated locations in the Philippines. Chinese workers and sources of supply are commonly involved with these laboratories. Methamphetamine can be easily produced, making it possible to use many areas in the country, which is made up of over 7,100 islands, for its production.

Marijuana is grown throughout the Philippines, although the largest areas of cultivation are found primarily in the mountainous areas of northern Luzon, central Visayas, and central, southern and western Mindanao. Authorities appear to have lost ground in their eradication efforts since 1999 due to financial constraints.

**Drug Flow/Transit.** Crystal methamphetamine continues to be smuggled from the PRC for transshipment and for consumption in the Philippines (the GOP estimates that \$1.2 billion worth of "shabu" arrives from eastern Chinese provinces every year). Shipping containers and ordinary cargo vessels which off-load to small boats are commonly used to bring multiple hundred-kilogram quantities of methamphetamine and precursor chemicals to the RP. The country is also a transshipment point to further export crystal methamphetamine to Japan, Australia, Korea, the United States, Guam, and Saipan. Commercial air carriers and express mail services remain the primary means of shipment to Guam and to the mainland United States, with a typical shipment size of one to four kilograms.

The Philippines is sometimes used as a transit point for commercial air couriers of heroin, but at much lower levels than the transshipment of methamphetamine. Heroin that is transshipped through the RP emanates from Thailand and Pakistan and is destined for mainland United States, Guam, and Europe, but

not in quantities large enough to have a significant impact. In response to successful law enforcement efforts to stem courier activities, traffickers are also using express mail services.

Cocaine also enters the Philippines for transshipment and personal use, but at much lower levels than methamphetamine. Law enforcement officials continued to seize express mail parcels containing cocaine. This cocaine originated in South America and was apparently destined for the RP and onwards to other countries in Southeast Asia.

**Domestic Programs (Demand Reduction).** Although they estimate that the total number of drug users in the Philippines is approximately 1.8 million (about 2.2 percent of the population), GOP law enforcement agencies are still studying the issue to determine the number of addicts or abusers involved in each drug category. Methamphetamine was by far the most abused drug in the Philippines during 2001.

To address the domestic drug abuse problem, a comprehensive school-based drug education program has been launched by the DDB in collaboration with the Department of Education, Culture and Sports, and local government units nationwide. Advocacy programs on drug abuse prevention education were also implemented in various workplaces and communities in the country. Likewise, both government and non-government organizations were encouraged to establish treatment and rehabilitation centers for all types of drug dependents. The Department of Social Welfare and Development was deputized as agent of the board to undertake the after-care and follow up of discharged clients from various centers in the Philippines. The Department of Justice's Parole and Probation Administration also promotes the rehabilitation of drug abusers.

#### **IV. U.S. Policy Initiatives and Programs.**

**U.S. Policy Initiatives.** The main goals of the U.S. counternarcotics 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 impacting the U.S.; 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 counternarcotics legislation to strengthen GOP counternarcotics 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 and/or other illegal drugs to the United States.

**Bilateral Cooperation.** The DEA has worked closely with the NDLEPCC, PNP, NBI, and Customs, among others to reduce the flow of drugs to the United States from the Philippines, as well as drug flow that directly affects the country. The DEA provides valuable drug trafficking intelligence gathered worldwide to the PNP and NBI. In 2001, this cooperation resulted in two seizures of large quantities of methamphetamine which led to the arrest of seven individuals. The Philippines, through in-country DEA and local counterpart representation, is participating in a chemical control program being administered for the first time in the Far East, with a DEA diversion/chemical control investigator based in Hong Kong assigned to the region. It is anticipated that through this cooperative arrangement, better chemical control enforcement efforts, along with improved Philippine legislation, can be developed and implemented.

The International Law Enforcement Academy (ILEA) in Bangkok (sponsored by the governments of the U.S. and Thailand) provided training to approximately 15 GOP drug enforcement personnel in 2001. A U.S. State Department grant of \$51,000 was agreed upon and signed by representatives of both governments in September 2000 to help finance computer equipment for interconnectivity between the NDLEPCC and the PCTC, and the equipment is expected to arrive in early 2002. The counternarcotics education and treatment NGO, Daytop International, conducted the second part of its demand reduction training course in July 2001 (the first part was presented in July 1999), focusing on drug abuse treatment methodologies. This program was also sponsored by a State department grant. Finally, the FBI Public Corruption and Ethics Course and ICITAP's Internal Affairs Process Course were also offered in the Philippines this year with State department grant support.

**The Road Ahead.** In 2002, the USG hopes to enhance the training available to GOP counterparts and promote the passage of much-needed law enforcement legislation through State department-funded programs. Prospective 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. asset seizure and forfeiture, consensual monitoring, wiretapping). U.S. law enforcement will also 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.

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# Singapore

## I. Summary

The Government of Singapore (GOS) effectively enforces its stringent counternarcotics policies through strict laws (including the death penalty), vigorous law enforcement, and active prevention programs. Singapore is not a producer of precursor chemicals or narcotics, but as a major regional financial and transportation center, it is an attractive target for money launderers and drug transshipment. Singapore's counternarcotics law enforcement agencies are virtually free of drug-related corruption and regularly attend U.S.-sponsored training programs. The seizure of a tablet form of methamphetamine, originally introduced in Thailand and called "yaba" ("mad medicine" in Thai) for the effect it has on some abusers, substantially increased in 2000 and in 2001. Singapore is a party to the 1988 UN Drug Convention.

## II. Status of Country

In 2001, there was no known production of illicit narcotics or precursor chemicals. The Central Narcotics Bureau (CNB) works with the 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. Also, CNB effectively monitors precursor chemicals that are transshipped through Singapore to other regional countries. Singapore utilizes pre-export notification to countries intended to receive precursor chemicals transshipped through Singapore.

Heroin abuse in Singapore continued to decline in 2001. In 2000 (latest crystal methamphetamine statistics available), abuse of "ice," a crystal form of methamphetamine that is usually smoked, also declined. The amount of "ice" that law enforcement authorities seized in 2000 fell 42 percent to 759 grams. Methamphetamine abuse, especially the tablets called "yaba," has continued to increase. The number of "yaba" tablets seized in 2000 increased significantly, with the seizure of approximately 25,000 tablets, mainly from Thai trafficking organizations operating in Singapore. The "yaba" originates in Burma and is transited through Thailand, where it has caused an epidemic of methamphetamine abuse. It is usually smuggled into the country at ports of entry. Because of the increase in abuse of this form of methamphetamine, anyone caught with more than 250 grams is subject to the death penalty. Those convicted of possessing more than 25 grams will face charges of drug trafficking, which carries a minimum of five years imprisonment and five strokes of the cane.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Singapore has continued to pursue a strategy of demand and supply reduction for drugs. This plan has meant that, in addition to arresting drug traffickers, Singapore has also focused on arresting and detaining drug abusers for treatment and rehabilitation. Through the Misuse of Drugs Act (MDA), the Central Narcotics Bureau (CNB) is empowered to commit all drug abusers to drug rehabilitation centers for mandatory treatment and rehabilitation. As a result of this effort, traffickers have seen a reduction in their clientele. This two-pronged strategy of demand reduction and vigorous enforcement against traffickers has been successful in curbing the drug problem in Singapore.

Singapore is a party to the 1988 UN Drug Convention. As a result of Singapore's accession to the Convention, the MDA was amended in 1998 to control the possession, supply, and manufacture of controlled substances. The amendment also provided regulations for the import, export, and transshipment of controlled substances. In May 2000, a new amendment to the MDA took effect, bringing two anesthetics under the law's purview. These substances are dihydroetorphine and remifentanyl, both known to be over 100 times more potent than morphine. This amendment came about after a

decision by the UN Commission of Narcotic Drugs to include both drugs in schedules to the 1961 UN Single Convention on Narcotic Drugs. Singapore is also a party to this Convention.

On the legislative front, Singapore enacted the Mutual Assistance in Criminal Matters (MACM) bill in 2000. This law builds upon the Drug Trafficking Act (DTA) of 1993, which provided a mechanism for mutual assistance with other countries in the fight against international drug money laundering. The MACM consolidates the existing mutual assistance provisions of the DTA and provides for more forms of assistance than were previously available under Singapore law.

**Accomplishments.** Singapore has continued to make significant progress in achieving and maintaining all the objectives of the 1988 UN Drug Convention. Domestically, the country has pursued its plan of rigorous enforcement action to curb supply and demand in the fight against drugs. On the international front, Singapore has continued to work not only with its ASEAN neighbors, but also the United States and other countries around the globe. As part of ASEAN, Singapore has pursued a regional plan called ASEAN-China Cooperative Operations in Response to New Dangerous Drugs (ACCORD), which creates measured targets in the fight against drugs in the region.

**Law Enforcement Efforts.** For the seventh straight year, the total number of people arrested on charges of possession, use, or trafficking in drugs is expected to drop, even though arrests in 2001 rose for methamphetamine, known locally as “ice” and “yaba.” Arrests for MDMA (ecstasy) declined in 2000 (latest statistics available). CNB efforts targeting heroin No. 3 abusers and long-term imprisonment for hard-core opiate addicts are at least partially responsible for the decline in arrests of heroin abusers. The CNB reports that 27 of the 56 major operations it mounted in 2000 were against drug syndicates. In 2000, authorities seized nearly 47 kilograms of heroin, as well as 4.5 kilograms of opium, 759 grams of methamphetamine, 10,339 tablets of ecstasy, 2 kilograms of ketamine, and thousands of dollars worth of assets.

**Corruption.** Singapore’s Central Narcotics Bureau (CNB) is charged with the enforcement of Singapore’s counternarcotics laws. The CNB and other elements of the government are effective and virtually free of any form of corruption.

**Agreements and Treaties.** Singapore is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Singapore and the United States continue to cooperate in extradition matters under the 1931 U.S.-UK extradition treaty. On November 3, 2000, Singapore and the United States signed a precedent-setting Drug Designation Agreement (DDA), strengthening existing cooperation between the two countries. In the past, the lack of such a bilateral assistance agreement had been an occasional handicap. The agreement provides for cooperation in asset forfeiture and sharing of proceeds in narcotics cases, and it is expected to result in significant seizures of illegal drug money laundering proceeds in the years ahead. The DDA will also facilitate the exchange of banking and corporate information on drug money laundering suspects and targets. These will include access to bank records, testimony of witnesses, and service of process. The DDA is the first such agreement Singapore has undertaken with another government and is also the first agreement made under the auspices of Singapore’s Mutual Assistance in Criminal Matters Act that was enacted in 2000. Singapore is negotiating similar accords with other nations. Singapore signed the UN Convention against Transnational Organized Crime in December 2000.

**Cultivation/Production.** There was no known cultivation or production of narcotics in Singapore during 2001.

**Drug Flow/Transit.** Singapore has the busiest (in tonnage) sea port in the world, and about 80 percent of the goods that enter its port are transshipped. Due to the sheer volume of cargo that transits the port, some of that cargo could contain illicit materials. The Government of Singapore (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. During 2001, there were no known transshipments of narcotics through Singapore that reached the United States.

**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. The government may detain addicts for rehabilitation for up to three years. In an effort to curb drug consumption outside of Singapore, CNB 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.

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 readjust successfully 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.

#### **IV. U.S. Policy Initiatives and Programs**

**Bilateral Cooperation.** Singapore and the United States continue to enjoy excellent law enforcement cooperation. In 2001, approximately 60 GOS law enforcement officials attended training courses at the International Law Enforcement Academy (ILEA) in Bangkok on a variety of transnational crime topics.

The GOS has cooperated extensively in drug money laundering cases, including some sharing of recovered assets. Singapore law permits foreign governments to seek mutual assistance in drug trafficking cases, including the production of bank records upon entry into force of a mutual legal assistance treaty or a drug designation agreement, such as the one the United States and Singapore signed in November 2000.

**The Road Ahead.** The United States will continue to work closely with the Singapore authorities on all narcotic trafficking and money laundering matters. The United States will also encourage new currency reporting requirement laws and increased transshipment monitoring efforts at the Singapore container port.

## South Korea

### I. Summary

The Republic of Korea (ROK) is neither a major producer nor a consumer of illicit drugs, but drug abuse is up, and heroin precursor chemical diversion may be a bigger problem than thought previously. As it has in the past, the Korean Supreme Prosecutor's Office once again hosted the Anti-Drug Liaison Officials Meeting for International Cooperation (ADLOMICO) conference, attended by 138 representatives from 22 countries. The conference focused on global cooperation among the attending country representatives and aimed to enhance participants' understanding of each country's unique drug problems. This year the Asian region's methamphetamine abuse problems dominated discussions. No methamphetamine laboratories were discovered in South Korea in 2001, even though the availability of illicit drugs for domestic use, primarily methamphetamine, appears to have increased by seven percent based on seizures. Arrests for usage of methamphetamine are down. The availability of "club drugs" such as MDMA (ecstasy) also appears to be increasing, as is their use, especially in metropolitan areas. The Korean Supreme Prosecutor's Office and the Korean Customs Service have worked together diligently to continue expanding the country's efforts in drug awareness and demand reduction programs during 2001. South Korea is a party to the 1988 UN Drug Convention.

Cocaine and heroin transit South Korea for other markets, but not in great quantity. There has been a sharp increase in law enforcement officials' awareness of the transit through the ROK of precursor chemicals for producing heroin. This might be the result of training on chemical diversion being provided to Korean law enforcement agencies by the DEA.

### II. Status of Country

The ROK has a moderate drug problem in comparison to countries with similar populations and land mass. The use of various club drugs, including ecstasy, Thai-type methamphetamine, and ketamine, has shown a continual increase. Importation of heroin and cocaine for local consumption remained steady compared to 2000. Arrests for drug abuse seem to have increased somewhat in Korea over the past year. With 47 million people, Korea reported only slightly over 10,000 drug arrests for 2000; from January through October 2001 an estimated 9,000 arrests were registered. There were clear indications during 2001 from seizures and subsequent investigations of violators that precursor chemical transit is much more common in Korea than previously thought. There was clear proof of sizable diversion of precursor chemicals for heroin during 2001.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Supreme Prosecutor's Office upgraded further an already well-staffed Narcotics Bureau to conduct narcotic investigations. The former director's position has been raised to that of Director General, and narcotics units have been created in every District Prosecutor's Office under the direct control of the Director General. In March 2001, the Korean Customs Service hosted precursor chemical diversion training provided by the DEA in Seoul and Pusan and it has since begun an aggressive campaign to identify cargo transiting Korea. The Korean National Intelligence Service recently has established a program among other drug law enforcement agencies to offer and expand the sharing of drug-related intelligence. This program falls under the Prime Minister's Office and is called the National Narcotics Prevention Program.

**Agreements and Treaties.** Korea is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Korea and New Zealand signed an extradition treaty in June 2001. Zhu



Rong Ji, the Prime Minister of China, signed an instrument of ratification for the extradition treaty that Korea and the People's Republic of China signed on October 18, 2000. The United States and Korea have entered into an extradition treaty, a mutual legal assistance treaty, and a customs mutual legal assistance treaty. Korea signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants in December 2000. It signed the Protocol against the Illicit Manufacturing of and Trafficking in Firearms on October 4, 2001.

**Cultivation/Production.** Although methamphetamine had been produced previously, currently production in the ROK, if any, is no longer significant. Some methamphetamine abused in South Korea appears to be entering from North Korea. The only other drugs known to be produced in Korea are marijuana and raw opium. In 2001, the Korean National Anti-Drug Program targeted marijuana and poppy cultivation. Between January and October, 12,564 poppy plants and 4,241 marijuana plants were seized. Marijuana, cultivated legally as hemp and used for fabrics and fertilizer, is grown in the northeast and southwest areas of the ROK but in relatively modest quantities. A portion of the licit marijuana crop is believed to be diverted for illegal use domestically. A derivative of marijuana, hashish, is found only in small amounts in the ROK, and is believed to be imported by West African and Middle Eastern smugglers.

**Domestic Programs (Demand Reduction).** Demand-reduction efforts using drug awareness train-the-trainers programs are carried out under the auspices of the Supreme Prosecutor's Office. During the summer of 2001, representatives from the Supreme Prosecutor's Office traveled throughout Korea and instructed school teachers about the perils of drug use, how to identify drugs, and how to recognize and counsel students suspected of using drugs. Teachers have been teaching their students about drugs during the school year. Additionally, the Pusan District Prosecutor's Office has initiated a drug awareness program. The program, which targets Pusan and the surrounding vicinity, uses a variety of approaches to curb drug use, including education and treatment.

**Law Enforcement Efforts.** The DEA, U.S. Customs Service, and military law enforcement authorities within the U.S. Forces in Korea (USFK) have continued to increase cooperative and joint enforcement efforts with the ROK Supreme Prosecutor's Office, Korean Customs Service, Korean National Intelligence Service, and Korean National Police, resulting in several successful drug cases. USFK has 37,000 military personnel in Korea, so USFK military law enforcement entities' coordination of drug investigations with the DEA and Korean authorities is important. USFK cooperation with the DEA is very close.

**Corruption.** Although there are media reports of corruption among public officials in the ROK, there is no evidence that public officials were involved in narcotics trafficking in 2001, or that corruption adversely influenced narcotics law enforcement in Korea.

**Drug Flow/Transit.** Methamphetamine, mostly from China, but also from North Korea and Thailand, is used in Korea and also transits the country. Cocaine and heroin are also used in and transit Korea. Transiting methamphetamine from China is often destined for the United States via Guam or Hawaii, but does not move in quantities sufficient to have a significant impact on the U.S. market. Heroin has been discovered coming from Thailand and Pakistan. Cocaine is used as a substitute for methamphetamine, but is very expensive and more difficult to obtain. While locally grown marijuana is available, some Southern African imports have also been discovered.

Recent investigations show that club drugs are becoming increasingly popular among Korean youth. Marijuana, ecstasy, and ketamine were discovered being smuggled into Korea in 2001..

#### IV. U.S. Policy Initiatives and Programs

In a continuing effort to target transit narcotics and precursor chemicals moving through Korea, the DEA held its first precursor chemical diversion training in 2001. The training was sponsored by the Korean

Customs Service and attended by members of the Korean Customs Service, Korean Supreme Prosecutor's Office and its district offices, Korean National Intelligence Service, Korean National Police, Korean Food and Drug Administration, and Korean National Institute of Scientific Investigations. During 2001, a Korean Customs Service Training instructor and a National Intelligence Service member were sent to DEA "Jetway" training in the United States. Both returned from this training and have been actively passing on their training to hundreds of members of their respective agencies.

**The Road Ahead.** ROK counternarcotics law enforcement authorities continue to strive toward a more global concept of narcotics investigation. They maintain a steadfast resolve to keep this national problem under control while combating the transit of narcotics through the ROK through increased international cooperation. The ROK is continually expanding its relationships with law enforcement agencies from neighboring countries.

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# Taiwan

## I. Summary

Taiwan was removed from the list of major drug-transit countries/economies in 2000 because there was no evidence that it was a transit point for drugs destined for the United States. Stringent law enforcement procedures along with enhanced customs inspection and surveillance methods seem to have cut off serious flows of heroin from Taiwan to the United States. However, drugs continue to be trafficked into Taiwan's domestic market, especially amphetamine-type stimulants (ATS). Although Taiwan is not a UN member and cannot be a party to the 1988 UN Drug Convention, the authorities on Taiwan have passed and implemented laws that meet the goals and objectives of the Convention.

## II. Status of Taiwan

Illicit narcotics are not produced on Taiwan. The PRC continues to be the primary source of drugs smuggled into Taiwan. Approximately 95 percent of methamphetamine and 79 percent of heroin whose origin could be identified entered Taiwan from the PRC, but some drugs, both amphetamines and heroin, appear to come from North Korea as well.

## III. Actions Against Drugs in 2001

**Policy Initiatives.** Regulations to implement the Witness Protection Law went into effect on July 4, 2001. The Legislative Yuan (LY) is considering a number of amendments to Taiwan's counternarcotics laws, which the Executive Yuan proposed at the beginning of 2001. The amendments would revise the Hazardous Narcotics Prevention Act to simplify the criminal procedures for prosecuting drug users and the procedures for compulsory rehabilitation and rehabilitation under observation. In addition, the MOJ's District Prosecutors' Offices have established special counternarcotics units.

Authorities on Taiwan have repeatedly expressed interest in working with PRC law enforcement agencies to combat smuggling and other criminal activities. The PRC, however, has thus far refused to cooperate, for political reasons.

**Accomplishments.** In 2001, the American Institute in Taiwan (AIT) and its Taiwan counterpart, the Taipei Economic and Cultural Representative Office (TECRO) reached preliminary agreement on a mutual legal assistance agreement. AIT and TECRO are expected to sign the agreement in 2002. Once it is in force, the agreement will provide a broader legal basis for enhanced law enforcement cooperation.

**Law Enforcement Efforts.** The Ministry of Justice has primary responsibility for formulating counternarcotics policies and drafting legislation. The Ministry of Justice Investigation Bureau (MJIB) and the National Police Administration's (NPA) Criminal Investigation Bureau (CIB) are Taiwan's lead counternarcotics agencies. Counternarcotics law enforcement is a priority on Taiwan and the relevant agencies have the necessary resources to fulfill their missions. The MJIB has made it a priority to develop a drug trafficking database to enhance its ability to focus on major drug traffickers and their organizations.

By the end of August 2001, the authorities on Taiwan had seized 152.9 kilograms of heroin and 1,156.11 kilograms of methamphetamine. In comparison, authorities on Taiwan seized 277.33 kilograms of heroin and 836.24 kilograms of methamphetamine during 2000. Through the first nine months of the year, narcotics-related convictions had increased by 12 percent compared to the same period in 2000.

**Corruption.** There have been no reported cases of official involvement in narcotics trafficking on Taiwan. President Chen Shui-bian's administration continues to make fighting corruption in the political system one of its highest priorities.

**Agreements and Treaties.** The AIT-TECRO MLAA will enter into force after both parties sign it. In 1992, AIT and TECRO signed a memorandum of understanding on counternarcotics cooperation in criminal prosecutions, and in 2001, AIT and TECRO signed a customs mutual assistance agreement. Taiwan is not a UN member and cannot be a party to the 1988 UN Drug Convention. The authorities on Taiwan are committed to the goals and objectives of the Convention and have enacted legislation to bring Taiwan's counternarcotics laws into conformity with its provisions.

Law enforcement authorities on Taiwan work closely with foreign law enforcement authorities. For example, the MJIB worked with counternarcotics authorities in the region, leading to arrests and drug seizures in five separate cases this year. In April, the MJIB conducted a counternarcotics training seminar for a group of Latin American countries and did the same in October for six Southeast Asian countries.

**Drug Flow/Transit.** The PRC remains the principal source for both heroin and methamphetamine, but at least some drugs enter Taiwan from North Korea as well. Fishing boats and cargo containers are still the primary means of smuggling both types of drugs into Taiwan. However, the MJIB has noted an increase in the amount of drugs smuggled into Taiwan by couriers posing as tourists. Drugs have been found strapped to their bodies and hidden in their clothing.

**Domestic Programs (Demand Reduction).** A number of departments are involved in efforts to prevent drug abuse. For example, the Ministry of Education provides training for teachers on how to discourage drug use and it is working with civic and religious groups to spread the same message. Recognizing the vulnerability of teenagers to drug abuse, the Ministry of Justice has organized an educational campaign specifically targeted at this demographic group. It has also produced some videos with popular entertainers to promote its counternarcotics message.

## IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** The main U.S. counternarcotics policy goal with respect to Taiwan is to ensure the latter does not become a major transshipment point for U.S.-bound narcotics by encouraging the authorities to maintain and improve their fight against drugs.

The CIB regularly shares information with the DEA and enjoys a close working relationship with the DEA's Hong Kong office. This fosters an atmosphere of cooperation and allows investigators to target transnational criminal organizations at all levels. The DEA has noticed an improved working relationship with the MJIB, compared to the past when the MJIB was more reluctant to exchange investigative information freely. Over the past year, the MJIB has also been more willing to conduct joint investigations and has cooperated more closely once joint operations began. The DEA has also begun to share information with the Coast Guard Administration and expects to continue to expand its relationship in the coming year by jointly targeting narcotics trafficking syndicates, especially those operating in the Taiwan Strait.

The DEA has also held training seminars for Taiwan counternarcotics authorities, including a three-day seminar for approximately 75 mid-level officers from Taiwan's NPA, MJIB, and the Ministry of Health, covering topics such as: informant handling, "club drugs" such as MDMA (ecstasy), controlled deliveries, intelligence collection, drug trafficking trends, the DEA's Diversion Program, and undercover operations. In September the DEA, the U.S. Coast Guard, and the U.S. Customs Service conducted a weeklong training seminar for over 100 members of Taiwan's recently established Coast Guard Administration, covering handling informants, assessing risks of vessels, selecting a vessel to search, and preparing to board vessels. The seminar also covered boarding procedures, uncooperative vessels, hidden compartments, occupational hazards, crime scene management, international law, controlled deliveries, smuggling trends, and drug trafficking trends.

**The Road Ahead.** The DEA plans to conduct additional training with the Coast Guard Administration, focusing on advanced investigative techniques used by narcotics investigators. The DEA will also continue to strengthen its working relationship with authorities on Taiwan involved in counternarcotics efforts and

encourage them to continue to share information in a timely manner and conduct more joint investigations.

# Thailand

## I. Summary

Thailand has continued its history of effective drug control efforts, and cooperation with the United States and the international community in measures against illicit drugs. Thailand actively promotes regional cooperation against drug trafficking and other transnational and organized crime, and is co-sponsor with the United States of the Southeast Asia International Law Enforcement Academy (ILEA) in Bangkok. The U.S.-Thai extradition relationship is excellent, and Thailand continues to extradite its nationals under the bilateral extradition treaty. There is continuing close cooperation between U.S. and Thai drug and other law enforcement authorities.

In 2001, epidemic-scale abuse of amphetamine-type stimulants (ATS), particularly among school-aged youth, remained Thailand's most imperative illegal drug problem. Thai authorities estimate that some three million people use some illicit drug, of whom about two-and-a-half million use ATS. Drug abuse is acknowledged by the Thai government and public as a central challenge to national security, and the safety and health of the population. The prison population has more than doubled in just five years, and over 65 percent of inmates are imprisoned for narcotics-related offenses. In the first 11 months of 2001, over 60 persons were sentenced to death for drug offenses. Thailand continues to afford high priority to demand reduction through drug abuse prevention and treatment, emphasizing ATS abuse. Thai authorities continue to explore additional approaches to cost-effective community-based protocols for addiction treatment. In 2001, Thailand initiated mandatory treatment in camps operated by the Royal Thai Armed Forces as an alternative to penal incarceration for users who are first-time offenders. Abuse prevention and treatment efforts in active cooperation with the United States emphasize training for public and private sector health and education professionals.

As a result of its successful three-decade crop control programs, Thailand is no longer a major producer of opium poppy. The United States estimates that poppy cultivation occurred on less than 1,000 hectares for the third successive year. Addicts in Thailand now depend largely on imported heroin. Thailand is important to the transit of heroin produced in Burma, Laos, and elsewhere to the United States and other international markets. Efforts by drug-trafficking organizations to conduct illegal business or protect themselves and their assets make public corruption a major problem for law enforcement agencies and the judiciary. Thailand has decided to become a party to the 1988 UN Drug Convention, pending approval of implementing legislation.

## II. Status of Country

The most commonly abused drugs in Thailand in 2001 were ATS. The form of abuse in Thailand differs from the most customary forms of abuse of methamphetamine in the United States. In the United States, methamphetamine is typically encountered in crystal form, normally with a very high purity. In Thailand, the most often encountered forms of ATS (called "yaba") are pills or tablets whose purity in 2001 averaged 24-28 percent. These may be ingested, but they increasingly are crushed and smoked to gain a more rapid and intense "rush."

Some level of ATS abuse historically existed among persons whose jobs or trades encouraged them to use stimulants to boost potential earnings, e.g. taxi and truck drivers. In the past several years, however, fueled by ready availability and low prices per dose, ATS abuse has become widespread among school-aged youth, including middle- and upper-class children, and among marginal socioeconomic groups such as urban or rural poor and minorities. This significant growth and shift in abuse pattern has led the Thai government to recognize, and the public to acknowledge, that ATS abuse is a major national security problem for Thailand and an important threat to the safety and health of its people. Thai authorities

estimate that some three million persons (about one in every 20 Thais) now use some illegal drug, of whom about two-and-a-half million use ATS.

A small percentage of ATS consumed in Thailand is produced domestically, usually using Burmese-origin tablets that have been crushed, diluted, and re-pilled. Thai authorities estimate that more than 700 million ATS pills were smuggled into Thailand in 2001. Virtually all of this is from Burma, where many traditional heroin trafficking organizations have also entered the lucrative ATS manufacturing and smuggling trade. From January through September 2001, the Royal Thai Government (RTG) reported seizing 6,895 kilograms of ATS drugs.

Thailand is no longer a significant source of opiates in the international illicit market. Its harvestable opium poppy crop for 2001 is estimated by the USG as under 1,000 hectares for the third successive year, an insignificant share of total global opium production. Thailand's domestic population of opium and heroin abusers now depends primarily on illicit opiates smuggled from Burma. However, Thailand remains a major factor in the international trade in illegal opiates as a transit country for organizations trafficking in opiates from Burma and Laos to the United States and other international markets. Thailand is an important regional maritime and air transportation center, and the center of important international tourist traffic. This has made it a frequent transit, repackaging, or resale point for Southeast and Southwest Asian heroin. Smuggling methods from Burma have become diversified to include direct maritime shipment to regional container ports.

Thailand produces limited quantities of cannabis, primarily in its northeast region. Quantities produced have been limited in recent years by the RTG's drug suppression activities, and by competition from growers in Cambodia who have lower production costs and are less affected by law enforcement. There continue to be some reports of cannabis cultivation in the northern and southern regions of Thailand.

While ATS is the principal drug abuse problem in Thailand, there is growing use of the synthetic drug MDMA (ecstasy), particularly at clubs, discos, and party spots in Bangkok, other major urban centers, and principal tourist areas, mostly among privileged classes that can afford its high price (averaging \$20-\$40 per tablet). During 2001 (January to September), RTG authorities seized 15 kilograms of ecstasy, compared with 18 kilograms for all of 2000, and only five kilograms in 1999. Virtually all ecstasy seized in Thailand appears to come from Europe, mainly the Netherlands, with some shipments originating also in Belgium. There are some reports that China may be a developing source. RTG officials believe the same organizations that ship heroin to Europe import ecstasy to Thailand.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In August 2001, Thailand was instrumental in promoting a regional meeting at the ministerial level among China, Thailand, Burma, and Laos, which issued a joint statement of intent to cooperate against drugs. Thailand is actively seeking, and has offered to host, a summit-level meeting of these four countries. Thailand continued to participate actively in cooperative training, professional development, and information exchange activities under a sub-regional memorandum of understanding among Burma, Cambodia, China, Laos, Thailand, and Vietnam, developed under the auspices of the UNDCP. In 2000, Thailand co-hosted a UNDCP conference that advanced a concept for cooperative action against illicit drug abuse, trafficking, and production by the ten members of ASEAN plus China. In November 2001, the UNDCP and ASEAN organized a follow-up meeting to develop further this "ACCORD" plan of action. The governments participating in the ACCORD process have emphasized that it is primarily motivated by the regional participants, rather than being donor-driven. In November, the United States was again invited as an observer to ministerial-level Thai-Lao bilateral consultations on drug matters in Luang Prabang.

Thailand considers effective action against drug trafficking and production in Burma indispensable to the success of its own national drug control strategy. For this reason, Thailand took initiatives to promote closer contact and cooperation with Burma in 2001. The two countries exchanged high-level visits and

cooperation and information sharing at operational levels increased. For example, a June visit to Burma by Thai Prime Minister Thaksin and a September trip to Thailand by senior Burmese official Khin Nyunt produced declarations of intent to pursue common actions against drugs. Thailand has consistently urged a policy of greater engagement with Burma on specific technical areas of cooperation against drugs as one of the most important things the United States could do to assist Thailand.

In early 2001 in the Andaman Sea, Thai authorities boarded and seized a vessel whose voyage originated in Burma, which proved to be carrying a substantial quantity of heroin and methamphetamine. Thai authorities provided Burmese police with some partial information (telephone numbers) developed from the investigation of this seizure, which led in September to the arrest by Burma of two individuals wanted by Thailand for involvement with this shipment. Also, Thailand has announced a grant of 20 million baht (about U.S. \$450,000) to fund a demonstration alternative development project for opium poppy reduction in the Wa state area in Burma.

Upon his election in January 2001, Prime Minister Thaksin announced a policy of strong support for measures against drug trafficking. The actual legislative process during the first year of his government, however, has been protracted and results in passing laws to implement policy initiatives have been limited, as they have been in other fields. Legislation that would permit the use of controlled deliveries in drug investigations has been introduced and is pending before the parliament. Thailand has requested U.S. experts to review other existing legislation and assist in developing more effective investigative and prosecutorial methods. Changes in law that would allow other effective investigative methods, including witness protection, co-conspirator testimony, and electronic evidence, still remain under study. Thai authorities are also considering improvements in laws relating to maritime drug trafficking, and ways to improve conditions for drug law enforcement on the Mekong River, where the border with Laos is not clearly demarcated. Large numbers of Thai officials, including senior law enforcement and judicial officials, participated during 2001 and previous years in expert exchanges, training seminars, and digital video conferences with U.S. experts on many of these subjects. Thailand maintains substantial financial support for programs to combat the abuse, trafficking, and production of illicit drugs, and other related transnational crimes. The ONCB (Organization of the Narcotics Control Board), in the Office of the Prime Minister, has continued to function as an effective institution for both planning national drug control strategy, and coordinating the efforts of 36 agencies from 11 ministries that have responsibilities to help deal with these problems.

The RTG has continued to develop initiatives to implement its drug abuse prevention and treatment goals more effectively. During 2001, the RTG initiated a new program under which courts may assign first-offender drug users to mandatory substance abuse treatment as an alternative to penal incarceration. Camps where such mandatory treatment is provided have been established by all three services of the Royal Thai Armed Forces, and by the end of 2001, several thousand individuals had been assigned to such camps, reducing the burden on a terribly overcrowded prison system. The RTG, with assistance from the Department of State, also continued to expand its ATS outpatient treatment program based on the state-of-the-art "MATRIX" model developed in the United States. In late 1998, the RTG signed a bilateral agreement with the United States to establish in Bangkok an International Law Enforcement Academy (ILEA). This was modeled generally on the successful ILEA established in Budapest in 1995. By the end of 2001, ILEA/Bangkok had trained over 2,000 law enforcement and judicial officials from all members of the Association of Southeast Asian Nations (ASEAN) except Burma. (Cambodia was included for the first time in 2001.) The PRC (including the Hong Kong and Macau Special Administrative Regions) also received training at ILEA/Bangkok. Since its establishment, ILEA/Bangkok has operated in temporary facilities made available by the RTG Civil Service Training Institute. In November 2001, the RTG offered a site for construction of a permanent instructional and office facility for the ILEA. It is hoped that construction can be completed in 2002.

**Law Enforcement Efforts.** The ONCB and the Police Narcotics Suppression Bureau (PNSB) are primarily responsible for national-level drug law enforcement programs. These agencies operate in



coordination with local police, and with enforcement authorities such as the Border Patrol Police, Provincial Police, Marine Police, and the Royal Thai Customs Service on drug cases.

During 2001 (figures are for January-September), Thai authorities reported a total of 130,905 persons arrested for drug trafficking offenses, and 121,905 indictments were brought against suspects on drug charges. Four hundred seventeen kilograms of heroin, 6,895.0 kilograms of methamphetamine or other ATS drugs, 8,108 kilograms of cannabis, 15 kilograms of ecstasy, and 244 kilograms of inhalants were reported seized. Under Thai law, drug trafficking may result in the death penalty. During 2001, over 60 defendants were sentenced to death for drug trafficking, and nine such sentences (January-October) were carried out. Under Thai law, the death penalty may be imposed for production or international smuggling of as little as 20 grams of heroin or amphetamines.

As part of a DEA/State Department-funded program, the Royal Thai Police have established five specially selected, trained, and equipped units that conduct investigations of specific trafficking threats faced by Thailand, its neighbors, and the United States. The most recent of these units was formed to operate against the threat of maritime heroin smuggling, and became operational in 2000.

During 2001, the USG completed training for Task Force 399, a joint unit established by the Royal Thai Army Third Region Command and the Border Patrol Police to operate against drug smuggling in remote areas near the northwest border with Burma. Task Force 399 began operations during the last quarter of calendar year 2001. It is supported by an interagency intelligence fusion center established at Chiang Mai with USG assistance and support. USG training and assistance to this unit will continue in 2002.

**Corruption.** As a matter of government policy, the RTG 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. No senior official of the RTG is known to engage in, encourage or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Many years ago, the Department of State Narcotics Assistance Program made available aircraft, and over the years has made available other equipment, to the RTG for use against production and trafficking in illicit drugs. There is no known evidence indicating any misuse by the RTG of such aircraft or other equipment.

Public corruption is, as a general matter, a serious problem in Thailand, and is recognized as such. Historical and cultural attitudes of deference to individuals of wealth, social standing, or official position have contributed to acquiescence to corruption in years past. Limited public sector salaries, a problem exacerbated since the 1997 economic crisis, have further constrained government resources, creating the same incentives for corruption in Thailand as they do in many other countries. Political interference in, or outright sale of, promotions or positions often becomes known throughout the law enforcement community, raising the level of cynicism and offering excuses for those disposed to abuse their own positions and seek money or other favors. Many government officials live well above their identifiable means. Efforts by the illegal drug industry, or by other transnational criminal organizations, to facilitate their illegal activities or to secure their persons and assets, have contributed to corruption in law enforcement and judicial institutions, due to the great financial resources available to such criminals.

In the past several years, popular acquiescence in many forms of public corruption has diminished sharply in Thailand. Recent laws have established a requirement for declaration of assets by cabinet ministers and over 900 other senior officials. Such officials must also disclose assets and liabilities of their spouses and minor children. In 2000, a Deputy Prime Minister/Minister of the Interior and Secretary General of a leading political party was banned from political activity for five years for failing to declare all assets. While he was ultimately cleared of wrongdoing by a constitutional court decision, Prime Minister Thaksin was also involved in a court case for much of 2001 regarding alleged deficiencies in financial disclosure statements filed during his previous government service. A national counter-corruption commission was created by the 1997 constitution to administer the financial disclosure system, and to investigate suspected instances of public corruption. A number of officials at levels up to sub-cabinet status are presently under investigation for allegations of abuses such as procurement fraud or contract bid manipulation.

Over years, the ONCB and the PNSB, have exhibited a generally high degree of professionalism and honesty. Security of complex investigations against major drug traffickers sought for extradition to the United States has been maintained, indicating that there is institutional recognition among police officers and government officials of those who can be trusted with sensitive information in specific cases. During 2001, the PNSB dismissed an officer who tested positive for drug use during a urinalysis, a sanction that had not been applied previously. In September 2001, the deputy head of the RTP financial crimes division was relieved of duty pending investigation of charges that he had accepted bribes to block investigation of alleged tax offenses by a criminal organization involved in, among other crimes, sale of contraband to Burmese drug traffickers. Corruption is certainly the most difficult and durable problem faced by Thailand's drug law enforcement and criminal justice institutions. However, the RTG has displayed a general willingness, backed by strong popular support, for legal and enforcement measures to prevent and punish such public corruption, especially where it facilitates the production, processing or shipment of illegal drugs or other controlled substances, or discourages investigation or prosecution of such acts.

**Agreements and Treaties.** Thailand has decided to become a party to the 1988 UN Drug Convention, pending approval of implementing legislation. It expects to do so once amendments are approved to some maritime and criminal laws that will conform to the requirements of that treaty. It is party to the UN 1961 Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Thailand signed the UN Convention against Transnational Organized Crime when it was opened for signature in December 2000. Thailand has various bilateral agreements on drug control with most of the countries it borders, and it is party to a number of regional agreements and arrangements on drug control and law enforcement cooperation.

Thailand has been highly cooperative with the United States in delivery of fugitives under the bilateral Thai-U.S. extradition treaty. Concerned Thai authorities, including 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 the U.S. Department of Justice and courts to facilitate extraditions. During 2001, Thailand extradited seven individuals in response to U.S. requests, of which three were narcotics related. The number of extraditions varies from year to year, but Thailand is generally viewed as one of the most cooperative nations when the need to extradite arises.

Thailand has responded to requests from the USG for assistance under the bilateral mutual legal assistance treaty, and routinely responds to such requests from other countries with which it has bilateral treaties. Thai law enforcement agencies are also responsive to requests for investigative assistance from U.S. drug law enforcement agencies, and share information regularly concerning drug trafficking investigations.

Every year for over two decades, Thailand has signed several bilateral agreements with the United States for cooperation in specific narcotics control assistance projects. In all material respects, Thailand has taken the actions necessary to accomplish the goals established by these bilateral narcotics control project agreements.

**Cultivation/Production.** Thailand has one of the most successful drug crop control histories in the world. The RTG prohibited traditional cultivation of opium poppy in 1959, and in 1969 initiated the Royal Project To Promote Reduction In The Poppy Crop by providing alternative licit livelihood to growers. In the 1990s, sustained alternative development efforts were complemented by systematic annual destruction of cultivated poppies by the Royal Thai Army. For the third successive year, harvestable opium poppy cultivation was estimated by the USG at less than 1,000 hectares, with a maximum potential opium production of under six metric tons. This is a trivial fraction of opium production in the region, and is insufficient to supply the domestic Thai population of opium and heroin abusers. In the 2000-2001 growing season, 757 hectares of poppy were eradicated. The 2001-2002 eradication campaign began in December 2001. As a general rule, Thailand sends police to the area of cultivation, at the appropriate time in the growing cycle, and knocks down the immature plant with wooden sticks.

Some cultivation of cannabis occurs on both sides of the Mekong River in Thailand and Laos, with processing in areas of both countries near the Mekong border. ONCB reported eradication of 19.82 hectares of cannabis in 2001 (January-September).

ONCB coordinates its annual opium crop survey with the assistance of the Royal Thai Army Zone III and the Royal Thai Police. The survey and analysis methodology is accepted as highly accurate, and a model for other countries in the region. Ground and aerial surveys are employed. Information from the computer geographic information system is combined with survey and other statistical data to assess opium poppy cultivation trends. This information is provided to operating eradication units. ONCB conducts survey activities before, during, and after the normal opium poppy cultivation cycle to capture early and late planting. The ONCB survey chief is a consultant to the UNDCP for applying Thailand's methodology in other developing countries with illicit drug crop cultivation problems.

Production in Thailand of refined opiates has essentially ceased with the substantial elimination of large-scale poppy cultivation. There is some production in Thailand of methamphetamine for domestic sale, largely using ATS tablets produced in Burma that are crushed, diluted, and reconstituted as tablets. The majority of ATS drugs sold in Thailand appear to be produced in clandestine laboratories in Burma. ONCB reported destruction of nine clandestine ATS laboratories or production facilities during the period January-September 2001.

**Drug Flow/Transit.** Methamphetamine and opiates enter Thailand for consumption and for transit to the United States and other world markets. Thailand is, therefore, both a consuming and a major transit country. Neither Thai nor regional and other law enforcement agencies possess complete information on the volume of drug trafficking involving Thailand. Nevertheless, heroin seizures confirm intelligence indications that significant amounts of heroin transit Thailand.

During the past several years, there have been indications of progressive increase in the use of alternative smuggling routes for heroin through southern China, Laos, Vietnam, and Cambodia, as well as maritime means. The UNDCP estimates that 60 percent of heroin produced in Burma now leaves that country through China. The adoption of smuggling routes that avoid Thailand is the best basis to conclude that drug traffickers consider exposure to effective law enforcement action by Thai authorities to be great enough to justify their development of new routes that avoid Thailand.

International postal and express mail services, and couriers ("mules") using commercial air carriers, remain common methods of smuggling heroin out of Thailand. Destinations of recent mailings included Canada, Spain, and the Czech Republic. Heroin carried by couriers was normally in kilogram or multi-kilogram quantities. West African traffickers based in Bangkok employ large numbers of couriers of mixed ethnic backgrounds to smuggle small quantities (one to four kilograms) on their persons or in luggage, accepting the loss of a certain number of couriers and amount of product as a normal cost of doing business. Occasionally, larger quantities up to 25 kilograms are smuggled in baggage.

During 2001, continued low prices for heroin from southwest Asia resulted in increasing use of an emerging smuggling route involving transit of Southwest Asian heroin through Bangkok to international markets. This emerging route is most notable among West African trafficking organizations, which send couriers to purchase quantities of cheaper Southwest Asian heroin in Pakistan or elsewhere in that region. Use of American, Nepalese, African, Indonesian, and Singaporean couriers has been documented. Many couriers travel on flights from Lahore, Islamabad or Karachi to Singapore, Jakarta, or elsewhere with intermediate one to three day stops in Bangkok (and often Nepal).

There were reports that ATS produced in facilities operated by the United Wa State Army in Burma were being exported by Thailand-based traffickers to customers in the United States. Parcels mailed from Thailand to Thai nationals living in north-central and southern California have been found to contain methamphetamine tablets, and the quantities being seized increased during 2001.

Thai officials support coordination and cooperation among the "Foreign Anti-Narcotics Community" (FANC), which is composed of 51 foreign law enforcement officials from 21 agencies attached to 19

foreign embassies in Bangkok. This professional organization works with Thai drug enforcement officials to identify common problems and seek solutions that promote regional and international cooperation on drug trafficking issues. U.S. and other foreign immigration officials in Bangkok have established a 24/7 office at the Don Muang International Airport to assist Thai authorities to identify mala fide travelers, including drug couriers, seeking to board flights to international destinations.

**Domestic Programs (Demand Reduction).** The Thai National Drug Control Strategic Plan for 2001 makes reduction of demand for illicit drugs equal in priority to reduction of drug supply. Demand reduction is based on parallel efforts to prevent the initiation of new illicit drug abusers through education and public awareness programs, and reduce the number of illicit drug users and addicts by drug abuse treatment programs. This includes a large and comparatively effective set of programs for drug abuse treatment of addicts or users among the prison population, or for minor first-time offenders assigned by courts to non-voluntary RTG drug abuse treatment programs in camps operated by the armed forces.

ONCB has general responsibility for coordinating prevention and treatment programs, with participation by NGOs through a national NGO counternarcotics coordinating committee. A permanent substance abuse epidemiological network has been established to support the design of effective prevention strategies with timely information about use patterns and motivations among affected sub-populations. The ministries of health and education have programs in place to offer treatment and implement prevention programs in schools and in provincial areas, as well as programs targeting specific high-risk groups including students and tradesmen such as long-haul truck drivers. The Bangkok office of the DEA has assisted the RTP to establish the “Drug Abuse Resistance Education” (DARE) Program in Thailand.

Thailand is active in the international network of public/private sector drug prevention organizations. This network mobilizes public opinion against the illegal drug trade, and promotes national efforts against abuse, trafficking, and production of illicit drugs. In 1999, Thailand hosted a second annual global prevention summit, which created a global standing committee to manage a comprehensive network of 5,000 organizations in 44 countries. A retired RTP general officer and former ONCB Secretary General chairs this committee, whose secretariat is located in the office of the Asia Pacific NGO Committee on Drug and Substance Abuse Prevention in Bangkok.

The Thai Ministry of Public Health is implementing a curriculum of substance abuse treatment directed at ATS abuse, in collaboration with the MATRIX program developed at the UCLA School of Psychiatry. Community-based outpatient treatment centers for this form of substance abuse are being established throughout the country, and the program will expand to other institutions as health care providers receive appropriate training. Ministry of Public Health and non-governmental Thai substance abuse specialists maintain active exchanges with U.S. counterparts. Thailand has also been active in development of corrections-based drug abuse treatment programs, in collaboration with the NGO Daytop International. The Thai Department of Corrections has implemented therapeutic community treatment programs in juvenile corrections and intake centers throughout Thailand. These programs were expanded in 2001 by implementation of the program for compulsory treatment in lieu of penal incarceration for minor first-time addicted offenders.

## IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** For 2001, the United States identified the following specific drug-control goals as ones Thailand should work to achieve:

- Develop legislation that will allow the use of more effective investigative and prosecutorial methods;
- Develop the Anti-Money Laundering Office (AMLO) into a viable institution;
- Ensure that Task Force 399 becomes effective through the sharing of information between the Royal Thai Army and the Border Patrol Police;

- Continue working with China and Burma to curb the ability of drug traffickers in areas controlled by the United Wa State Army to obtain precursor chemicals and obtain goods and services;
- Continue to use the “ACCORD” process to increase regional cooperation on drug trafficking;
- Continue efforts to engage the Lao and Cambodian governments on cross-border issues;
- Pursue corruption whenever it enables narcotics trafficking and;
- Finalize accession to the UN Drug Convention.

**Bilateral Cooperation.** Thailand and the United States have a history of close partnership in efforts against all aspects of the abuse, trafficking and production of illicit drugs. Thai and United States drug law enforcement institutions collaborate closely in investigations of common concern. Bilateral narcotics control assistance projects and the bilateral agreement to operate ILEA/Bangkok are further examples of continuing effective bilateral cooperation.

The Department of State Drug Assistance Program in Thailand in 2001 included four projects:

- The Narcotics Law Enforcement Project to enhance the capabilities of Thai drug law enforcement institutions effectively to investigate and prosecute major drug trafficking organizations. This project provides commodity and training Support for the ONCB, PNSB, and other Thai drug law enforcement agencies, and supports efforts to strengthen the Thai criminal justice system.
- The Crop Control Project provides support to the Royal Thai Army Region III, ONCB, and other institutions to survey, locate, and eradicate illicit opium poppy cultivation in northern Thailand.
- The Demand Reduction Project, to which the Department of State’s Bureau for International Narcotics and Law Enforcement Affairs (INL) has provided substantial annual funding, assists Thai authorities to improve and expand drug abuse prevention and treatment programs, and to support increased engagement by NGOs and the private sector in national drug awareness efforts.
- A Regional Initiatives Project supports Thai government cooperative activities with regional neighbors in narcotics control issues. The largest part of this project is the U.S. contribution of operating costs for ILEA/Bangkok. U.S. law enforcement agencies including the DEA, Customs Service, FBI, INS, and Secret Service, from offices in Thailand or from the United States, regularly provide instructors at the ILEA. These agencies develop and offer training in drug and other significant criminal law enforcement subjects, such as trafficking in women and children, which are often related to drugs. Thailand’s support and active role in ACCORD activities is a good example of how Thailand shows leadership in regional cooperation. ACCORD brings experts on drug trafficking and treatment from ASEAN states and China together to exchange views.

**The Road Ahead.** Thailand will continue to be a regional leader in drug control and in efforts against related forms of transnational crime. It will continue to cooperate closely with the international community on these issues.

Legislation to employ advanced techniques for investigation and prosecution of drug and other serious criminal offenses will be approved over the next few years. These will probably address, among other issues, plea bargaining, co-conspirator testimony, witness protection, broadening of rules of evidence, and

electronic evidence. Taken as a whole, Thailand's implementation of its national drug control strategy will in general become increasingly effective.

Close cooperation between the United States and Thailand will continue on drug and other crime control issues. Extradition and mutual legal assistance relationships, and investigative cooperation between law enforcement agencies, will remain strong. Regional cooperation against transnational crime will be promoted through continued effective operation of the ILEA/Bangkok.

Thai authorities will begin to plan and implement measures to address new drug trafficking methods and routes. This will include measures to improve intelligence collection, operational planning, and implementation against maritime drug trafficking, particularly in Thailand's territorial waters and adjacent seas.

Action to prevent, control, disclose, and punish public corruption will remain the most difficult long-term challenge to the RTG. Over the next several years, the RTG should begin to develop improved public ethics regimes, internal oversight mechanisms, and mechanisms to enlist public support in measures against official corruption.

# Thailand Statistics

(1993–2001)

	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Opium</b>									
Potential Harvest (ha)	820	890	835	1,350	1,650	2,170	1,750	2,110	2,880
Eradication (ha)	832	757	808	715	1,050	880	580	0	0
Cultivation (ha)	1,652	1,647	1,643	2,065	2,700	3,050	2,330	2,110	2,880
Potential Yield <sup>1</sup> (mt)	6	6	6	16	25	30	25	17	42
<b>Cannabis</b>									
Potential Harvest (ha)	—	—	—	—	—	—	—	—	—
Eradication (ha)	—	0	0	0	0	85	80	85	80
<b>Seizures</b>									
Opium (mt)	2.053	0.630	0.440	1.500	0.720	0.620	0.920	0.600	2.200
Heroin (mt)	0.417	0.290	0.310	0.530	0.320	0.390	0.690	1.100	2.100
Cannabis (mt)	8.08	6.50	45.25	6.00	9.00	44.00	46.00	71.00	98.00
<b>Other Data</b>									
Heroin Labs Destroyed	0	0	0	1	3	2	1	0	2
Meth Labs Destroyed	9	9	14	13	19	1			
Narcotics Arrests (thousands)	131	133	205	186	158	125	120	102	85
Opium Consumed (mt)	60.0	60.0	60.0	60.0	60.0	60.0	60.0	53.0	53.0
Heroin Consumed (mt)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.5
Opium Users (thousands)	111	111	111	111	111	111	111	35	35
Heroin Users (thousands)	220	220	220	220	220	220	220	220	220

<sup>1</sup> Figure based on December 1991-February 1992 Opium Yield Study. Average yield hectare is 11.5 kilograms. 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 1999 to February 2000 opium season is referred to as the 2000 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.

# Vietnam

## I. Summary

Approaching the drug problem in a comprehensive manner, the Government of Vietnam (GVN) continued to make progress in its counternarcotics efforts during 2001. Specific actions included: enhanced law enforcement, increased attention to interagency coordination, continued cooperation with the UNDCP, ratification of a comprehensive counternarcotics law, and implementation of public awareness campaigns. Despite the GVN's counternarcotics efforts, however, the drug abuse problem in Vietnam worsened, as overall drug abuse increased and amphetamine-type stimulants (ATS) gained in popularity among Vietnam's youth. Vietnam is a party to the 1988 UN Drug Convention.

## II. Status of Country

Although Vietnam meets the statutory definition of a "Major Illicit Drug Producing Country" (with at least 1,000 hectares of illicit poppy under cultivation), GVN, UNDCP, and law enforcement officials do not consider cultivation a major problem. The USG estimates 2,300 hectares of poppy are cultivated in remote northern and western provinces of Lai Chau, Son La, and Nghe An. In the absence of a survey in 2000, it is not possible to verify whether this figure is still accurate. While the GVN claims a much lower figure (200 hectares), UNDCP officials have stated that a more accurate figure is somewhere between the USG and GVN estimates. Nevertheless, cultivation in Vietnam accounts for only about one percent of cultivation in the Golden Triangle region. The GVN claims that there is no cannabis grown in the country; anecdotal evidence suggests that there may be relatively small amounts grown in remote southern regions, along with larger commercial crops of hemp.

Vietnam is not a major producer of or transit country for precursor chemicals. Nevertheless, in 2001, the GVN created a dedicated precursor control unit within the counternarcotics police. This unit includes a pharmacist and chemist and received DEA training in August 2001.

More significant drug issues in Vietnam are the transit through Vietnam of illicit narcotics or controlled substances and the rising popularity of ATS. Heroin transits Vietnam en route to other countries, although there is no conclusive evidence that heroin transiting Vietnam is making its way to the United States. Increasingly frequent courier seizures in Australia in 2001 indicated that this may be a preferred destination for heroin transiting Vietnam. It appears that some cannabis, heroin, and synthetic drugs are entering Vietnam from Cambodia. Regarding ATS, GVN authorities are particularly concerned over the rising use among urban youth and are implementing enforcement and awareness programs that they hope will avoid a youth epidemic situation similar to what has occurred in Thailand. In October 2001, Do Kim Tuyen, Deputy Director of the Hanoi police, told Phat Luat ("The Law") newspaper that MDMA (ecstasy) has appeared in 44 of 61 provinces nationwide and that Hanoi was "one of the favorite destinations." (It appears that these drugs may be methamphetamine rather than ecstasy.)

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The coordinating element for the GVN's counternarcotics efforts is the National Committee for Aids, Drugs, and Prostitution Control (NCADP). Deputy Prime Minister Pham Gia Khiem chairs NCADP, which includes a broad spectrum of GVN ministries and mass organizations (umbrella-type organizations of GVN citizens, sponsored by the Vietnamese Communist Party as the approved medium for expressing social concerns). Key officials include four deputy chairpersons: Minister of Public Security (MPS) Le Minh Huong; Minister of Labor, War Invalids, and Social Affairs (MOLISA) Nguyen Thi Hang; Minister of Health Do Nguyen Phuong; and Ha Thi Lien, Standing Member of the Presidium of the Fatherland Front.



At a May 3, 2001 national conference, convened to review 1998-2000 counternarcotics taskings and to discuss implementation of the 2001-2005 counternarcotics plan of action, senior officials, including Prime Minister Phan Van Khai, DPM Khiem, Minister of Public Security Huong, and Vice Minister of Public Security Le The Tiem, emphasized the importance of the fight against drugs. PM Khai called for a “more unified and effective counternarcotics fight” along with implementation of the 2001-2005 counternarcotics plan. He also called for a stronger drug awareness effort, especially in the rural and mountainous areas and among youth, improved interagency coordination, more vigilance along the borders, and an increased focus on drug treatment. In a subsequent interview with the newspaper, “The Law,” Tiem emphasized the importance of the counternarcotics struggle and cited five specific targets for 2001, including: reducing the number of addicts and drug criminals by 20 percent; increasing by ten percent the number of drug-free communes; eradicating 98 percent of re-cultivated areas; developing implementing regulations for the new counternarcotics law; and continuing to promote bilateral and multilateral counternarcotics cooperation.

The National Assembly passed a new counternarcotics law on December 9, 2000, which came into effect on June 1, 2001. The GVN directed MPS and other ministries, including the Ministry of Justice (MOJ), to agree on a common approach for implementation. In addition, MOJ was tasked with working with MPS and other relevant agencies to review existing counternarcotics legal documents and make appropriate amendments to facilitate implementation of the new law. The UNDCP is assisting the GVN to develop these implementing regulations for the new law that will allow law enforcement authorities to use techniques such as controlled deliveries, informants, and undercover officers. To date, though, the GVN has not issued implementing directives to support the law.

The GVN moved forward in developing its long-term counternarcotics master plan, with the assistance of several foreign donors, including the United States. The plan now includes the following 14 projects: building the national drug control strategy for 2001-2010; strengthening the capacity of the national coordinating counternarcotics agency; implementing crop substitution programs in Ky Son District, Nghe An Province; implementing crop substitution programs in Song Ma District, Son La Province; strengthening the capacity to collect and deal with drug information; strengthening the capacity to prevent and arrest drug criminals; building and completing a counternarcotics legal system; educating students on drug awareness and prevention; strengthening drug prevention activities in Vietnam; preventing drug abuse among workers; strengthening the capacity to treat and rehabilitate addicts; preventing drug use among street children; reducing the demand among ethnic people; and preventing the spread of HIV/AIDS among addicts through demand reduction intervention.

Demonstrating its commitment to fighting drugs, the GVN increased its counternarcotics related spending in 2001. The GVN’s official national counternarcotics budget in 2001 was 95 billion Vietnamese dong (\$6.3 million), up from 80 billion (\$5.3 million) in 2000. Significantly more was spent on counternarcotics activities, considering provincial and district contributions. However, lack of resources continued to be a major constraint in counternarcotics activities.

In 2001, Vietnam accelerated its efforts in bilateral and multilateral law enforcement coordination. In June 2001, Vietnam, Laos, and Cambodia held the first ever trilateral meeting to discuss regional drug issues. Demonstrating its commitment to the effort, the GVN sent MPS Vice Minister Tiem to head the delegation. Vice Minister Tiem was the highest-ranking Vietnamese official ever sent to a regional counternarcotics conference. At the conference, the three countries agreed to cooperate on training counternarcotics task forces, sharing information, and coordinating on cross border issues. The countries also issued a joint declaration calling for a drug-free ASEAN by 2015. In addition, representatives of the six counternarcotics UNDCP MOU countries (Vietnam, Laos, Cambodia, China, Burma, and Thailand) met in May 2001 and signed a series of agreements renewing their commitments against drugs.

Vietnam also intensified bilateral cooperation with its neighbors, another key element toward full compliance with the 1988 UN Drug Convention. In July 2001, Vietnam and China signed their first bilateral counternarcotics agreement during the visit of China’s Minister of Public Security. In addition,

Vietnam and Cambodia held a conference in June 2001 on counternarcotics cooperation, during which both sides agreed to strengthen coordination along the border. In July 2001, Vietnam and Laos held a similar conference and the two sides agreed to strengthen information sharing.

Multilaterally, Vietnam continued to work closely with UNDCP. The GVN is working with UNDCP to assume management responsibility for the second phase of the crop substitution project in Ky Son, Nghe An province. SODC announced in November 2001 its commitment to work with INTERPOL and the international law enforcement community to improve the overall effectiveness of counternarcotics efforts in Vietnam.

**Accomplishments.** In 2001, Vietnam continued to make significant progress in achieving full compliance with the 1988 UN Drug Convention. A key GVN achievement during 2001 was bringing the new counternarcotics law into effect in June. This was an important step for Vietnam towards full compliance with the 1988 UN Drug Convention. As implementing regulations are developed, the GVN will have an enhanced capacity to engage in counternarcotics activities within an appropriate legal framework.

The GVN and Vietnam Communist Party (VCP)-sponsored mass organizations continued to implement periodic nationwide drives against drugs. In March 2001, nationwide drug law enforcement forces launched a campaign in several drug “hot spots” that resulted in a significant increase in seizures and arrests over the previous month, according to GVN figures. During that month, authorities arrested 1,535 drug offenders, compared to 1,119 the previous month. In another campaign, the GVN launched an “anti-drug month among adolescents” in June to increase awareness of the dangers of drugs among Hanoi city youth. Also in June, UNDCP assisted the GVN in its annual “anti-drug day” by sponsoring a counternarcotics poster contest which resulted in a publication distributed widely among schools. Also as part of the campaign, the Vietnam General Confederation of Labor held a counternarcotics meeting in Viet Tri City in Phu Tho Province, attended by over 1,000 state employees. In October 2001, the Vietnam Fatherland Front Central Committee launched its own two-month campaign against drugs.

**Law Enforcement Efforts.** GVN 2001 seizure statistics indicate a mixed picture compared with a similar period for 2000. ATS seizures increased from 6,783 doses to 49,369 doses. Heroin seizures fell from 50.5 kg to 40.3 kg in 2001. Opium seizures, however, rose from 455 kg to 589 kg in 2001. According to law enforcement sources, this may indicate the rising popularity of ATS. The number of total drug cases increased by 43 percent, from 8,925 to 12,811, while the number of offenders charged with drug-related offenses increased by 30 percent. Arrests during the same period rose from 16,276 to 21,103 in 2001.

The GVN continued a policy of severe punishment for drug offenses. However, it remains unclear whether the Vietnamese system is willing to apply such penalties against well-connected Party and government officials, when necessary. In a November 2001 report, Trinh Hong Duong, Chief Judge of the Supreme People’s Court, stated that between September 2000-September 2001, 77 convicted drug traffickers received death sentences and 88 received life imprisonment sentences. In Vietnam, possession of 100 grams of heroin, 5 kilogram of opium or cannabis gum, or 75 kilograms of cannabis or opium plants may result in the death penalty under the new counternarcotics law.

The year’s most important counternarcotics case occurred in Ha Tinh Province in February 2001. Ha Tinh Provincial Peoples’ Court sentenced seven defendants to the death penalty and nine received life in prison. Seven others were sentenced to between ten and 20 years in prison. The case involved a drug ring that trafficked 32 kilograms of heroin from Laos into Vietnam via Nghe An and Ha Tinh Provinces over a two and one half year period. However, no perceptible change in the level of sophistication of narcotics investigations was evident in 2001. According to law enforcement sources, lack of training, resources, and experience both among law enforcement and the judiciary are weaknesses that inhibit improvement in this area.

Law enforcement sources do not believe that major trafficking groups have moved into Vietnam, although this could potentially happen. Relatively small groups, perhaps five to 15 individuals who are often related to each other, do most trafficking.

Resource constraints among GVN counternarcotics police continued to be a major problem during 2001. While the Australian government provided major help with a program of computer equipment and training, provincial police continue to experience resource problems. A December 2001 embassy visit to Cao Bang Province (along the Vietnam-China border), where there is significant drug activity, revealed that the local counternarcotics police had no cars, no computers, and no working telecommunications equipment. MPS is continuing to appeal for foreign assistance to provide additional resources and training. Foreign law enforcement sources and the UNDCP stated that lack of training and resources are significant impediments to enhanced GVN law enforcement efforts.

**Corruption.** Vietnam does not, as a matter of government policy, 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 USG has no information linking any senior official of the government of Vietnam with engaging in, encouraging, or facilitating the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. It is, however, not unreasonable to suspect that corruption plays a role in explaining some narcotics trafficking in Vietnam.

The GVN tried to demonstrate its commitment to fighting official corruption, both in general and specifically narcotics-related. GVN authorities, especially the VCP General Secretary Nong Duc Manh, made strong statements against corruption. In November, Manh announced a new anticorruption ordinance requiring party members, state officials, and state employees to declare real estate and business assets. At the first week of the National Assembly's 10th session in November 2001, Prime Minister Phan Van Khai recommended a number of anticorruption measures including administrative reforms, new regulations on financial and budget management, and reform in the state salary system. Both the GVN and the VCP have made combating corruption one of their top priorities, and have made unambiguous statements that not only must officials not engage in corruption but that they will be held personally responsible for such wrongdoing by their relatives and subordinates as well. Wives, close relatives, and subordinates of officials sometimes misuse their connections for personal gain.

The GVN demonstrated continued willingness to pursue at least some low ranking law enforcement officials involved in drug activity. In February 2001, a police major was fired for helping an accused drug offender get released from custody in Ho Chi Minh City. In September 2001, Hanoi People's Court tried, convicted, and sentenced to death a Lai Chau police officer for heroin trafficking. Whether such tough measures could be applied against well-connected officials of government or party remains uncertain.

**Agreements and Treaties.** Vietnam is a party to the 1988 UN Drug Convention and the 1971 UN Convention on Psychotropic Substances. Negotiations continued on a letter of agreement on counternarcotics assistance in 2001. Current negotiations are focused on specific project agreements instead. Vietnam is currently precluded by statute from extraditing Vietnamese nationals, but it is contemplating legislative changes. However, at the request of the USG (and in accordance with the 1988 UN Drug Convention), Vietnam did deport non-citizens to the United States during 2001 who were wanted for various white collar and money laundering crimes. Vietnam has signed the UN Convention against Transnational Organized Crime.

**Cultivation/Production.** USG sources confirm that opium is grown in hard-to-reach upland and mountainous regions of some northwestern provinces, especially Son La, Lai Chau, and Nghe An Provinces. According to USG sources, the total number of hectares under cultivation has been reduced sharply from an estimated 12,900 hectares in 1993, when the GVN began opium poppy eradication, to 2,300 hectares in 2001. (The 2001 USG estimate is the same as 2000 because no satellite survey was performed.) Concerning drug production, UNDCP and law enforcement sources do not view production as a significant problem in Vietnam. While the GVN does not admit that drugs are produced in the country, there have been unconfirmed reports of limited ATS production as well as some seizures of equipment (i.e., pill presses).

As part of its efforts to comply fully with the 1988 UN Drug Convention, the GVN continued to eradicate poppy, when found, and to implement crop substitution, whereby opium poppy cultivation is replaced by other crops such as mandarin oranges, tea, cinnamon, plums, herbs, hybrid corn, potatoes, and soybeans. Concerning eradication, GVN authorities reported in a December 2001 conference that “as much as 90 percent of opium poppy growing acreage in Vietnam has been destroyed over the past ten years.” However, GVN, law enforcement sources, and UNDCP confirmed that there has been some recultivation in very remote areas in the north, especially where ethnic minorities face difficult living conditions. A June 2001 report from Lai Chau Province noted that the provincial government remains dedicated to “100 percent” eradication as one of its targets for the 2001-2005 Master Plan.

The GVN revealed plans for a 784 billion Vietnamese Dong (U.S. \$52 million) eradication and crop substitution project in 186 mountain communes located in 10 provinces (including Cao Bang) where recultivation has been a problem.

**Drug Flow/Transit.** While law enforcement sources and UNDCP believe that significant amounts of drugs are transiting Vietnam, DEA has not identified a firm case of heroin entering the United States directly from Vietnam, though it appears some may be entering via Canada. More commonly, drugs, especially heroin and opium, enter Vietnam from the Golden Triangle of Thailand, Laos, and Burma, making their way to Hanoi and especially to Ho Chi Minh City, where they are transshipped by air or sea to the Philippines, Hong Kong, Taiwan, Japan, and increasingly Australia. In October 2001, the GVN reported ATS shipments entering the country via Malaysia, Hong Kong, Laos, and Cambodia. Australian Federal Police (AFP) sources report concern over heroin and methamphetamine arriving in Australia from Vietnam via couriers. There appear to be increasingly strong ties between drug criminals in Vietnam and the Vietnamese community in Australia. In April 2001, AFP seized 9 kilograms of heroin from a courier who arrived in Australia from Vietnam, and there have been three other similar arrests (with smaller seizures) in the past three months. In November 2001, a Vietnamese-Australian woman carrying heroin was arrested at Ho Chi Minh City’s airport just before boarding a plane for Sydney.

In June 2001, the GVN reported that the Vietnam-Lao border, particularly the northwestern provinces of Lai Chau and Son La and the northern central provinces of Nghe An, Ha Tinh, and Thanh Hoa, are the main routes for illicit drugs entering Vietnam and account for over 60 percent of the country’s confiscated heroin and other addictive drugs. According to the report, about 80 percent of confiscated ATS tablets entered Vietnam through the northern border provinces of Lao Cai, Quang Ninh, and Cao Bang. Marijuana, heroin, and some ATS tablets entered Vietnam via the Cambodian border. Not unexpectedly, Hanoi and Ho Chi Minh City have the most significant drug-related activity; those two cities make up 51 percent of the drug cases and 56 percent of the drug-related offenders nationwide, according to the report. Drugs are also transiting Vietnam from Laos via Nghe An Province and onto Vinh, which serves as a major port for land-locked Laos. The drugs then follow similar routes as described above. Since there is considerable legitimate commerce from Laos, law enforcement sources report that it is fairly easy to employ different concealment techniques. Some drugs also arrive from Laos and Cambodia to Ho Chi Minh City and then are transshipped to Singapore and Malaysia.

**Domestic Programs (Demand Reduction).** The GVN views demand reduction as a significant objective in its fight against drugs as well as an integral part of its efforts to comply fully with the 1988 UN Drug Convention. In May 2001, NCADP reported in a national conference to review the 2001-2005 Counternarcotics Plan of Action that Vietnam has 101,036 registered addicts, down about four percent from 2000. These addicts spend over \$133 million on illicit drugs. In addition, there are approximately 4,800 child addicts and 1,500 student addicts, according to GVN statistics. It should be noted that the UN believes all these numbers are understated.

On the awareness side, the Ministry of Culture and Information is in charge of coordinating the effort to increase awareness among students, and claims to have distributed drug information to every school in Vietnam. Recognizing the close link between drug use and HIV/AIDS (the GVN estimates 70 percent of the 40,000 confirmed cases of HIV/AIDS are thus linked), in 2001, advertisements began to regularly

appear in newspapers providing contact information for people to learn more about the connection between drugs and HIV/AIDS. The GVN continued its long-standing campaign of putting up counternarcotics posters all around Vietnam, and Vietnamese television and radio have increased the pace of counternarcotics and HIV/AIDS warnings through a new series of advertisements featuring popular singers and actors.

Vietnam has a network of drug treatment centers, approximately one in each province. However, SODC has stated that they are often inadequate and the high recidivism rate (which SODC claims is about 80 percent but is more probably in the 90-95 percent range similar to other countries) is “unacceptable.” Drug treatment in these centers is compulsory, based on a court order. Drug treatment outside of centers is often community based and counselors make visits to addicts being treated at home, providing advice and some medicines, if needed. Recognizing the importance of expanding drug treatment in the cities, Ho Chi Minh City’s local government has constructed 14 drug rehabilitation centers over the past three years, bringing its total to 16. It also unveiled plans in November 2001 to expand drug treatment capacity from 5,000 to 11,800 addicts by the end of 2002. MOLISA and the Youth Volunteer Force (Youth Union) have joined forces to build new detoxification centers and other facilities to existing drug rehabilitation centers. The new facilities will cost about 12 billion Vietnamese Dong (U.S. \$800,000).

On World AIDS Day 2001, Ho Chi Minh City’s local government launched an “action month” to prevent the spread of HIV/AIDS in the city. In addition, the city began work on a center for orphans with HIV/AIDS, which will have a total capital investment of 7 billion Vietnamese Dong (U.S. \$400,000), about one-third of which contributed by NGOs. The center will provide treatment and care for 100 affected children while advising and assisting other HIV/AIDS children in the community.

The GVN took another important step in 2001 concerning HIV/AIDS prevention by signing an agreement with the United States whereby the USG’s Centers for Disease Control will assist the Ministry of Health with the first stage of a U.S. \$10 million grant to expand the country’s HIV/AIDS prevention and care program. The funds will be used to support a wide range of HIV/AIDS programs and activities, including peer education, voluntary counseling and testing, and prevention and treatment of other sexually transmitted infections.

#### **IV. U.S. Policy Initiatives and Programs**

Vietnam and the United States continued negotiations to conclude a letter of agreement, under which the United States would grant counternarcotics assistance to Vietnam. If successfully concluded, this agreement will represent the first direct bilateral counternarcotics program assistance to Vietnam. The USG currently funds training for GVN law enforcement officials to participate in courses at the International Law Enforcement Academy in Bangkok. The USG also contributes to counternarcotics efforts through its contributions to UNDCP.

U.S. law enforcement authorities reported that the GVN provided useful and regular counternarcotics cooperation during 2001. The Ministry of Public Security assisted U.S. law enforcement authorities on several drug-related cases by providing information upon request. Also, on two occasions, the GVN deported non-citizens to the United States wanted on U.S. criminal warrants. In addition, the GVN also provided drug samples and cooperated on several joint investigations and in general have been helpful and cooperative with their U.S. counterparts.

**The Road Ahead.** The GVN is very much aware of the threat of drugs, and is especially concerned over the rising domestic problem. During 2001, as in previous years, the GVN pressed forward with ongoing and new initiatives aimed at coping with the law enforcement and social problems that stem from the illegal drug trade. Vietnam continued to cooperate on a bilateral, regional, and multilateral basis to fight against the drug trade despite many internal problems that make fighting drugs a challenge.



# EUROPE AND CENTRAL ASIA





# Albania

## I. Summary

Drug trafficking is a significant issue for Albania. Organized crime organizations use Albania as a transit point for drug and other types of smuggling due to its strategic location, weak police and judicial systems, and lax border controls. The most common illegal drugs are heroin, cocaine, and marijuana. Heroin is typically routed through the “Balkans Route” of Turkey-Bulgaria-Macedonia (FYROM)-Albania, and on to Italy and Greece. Cocaine is smuggled by air from the United States and South America, passing through Albania on the way to Western Europe. Although Albania is not a major transit country for drugs coming into the United States, it remains a country of concern to the United States. Drug abuse is a growing problem, but remains on a small scale compared with Western Europe. Statistics continue to be unreliable on drug trafficking or use, and the public is generally unaware of the problems associated with drugs.

The Government of Albania (GOA), largely in response to international pressure and with international assistance, is in the early stages of attempting to confront criminal elements more aggressively. This continues to be an uphill battle because of lack of resources and corruption in Albania. The government established a counternarcotics unit in 1998 under the Ministry of Public Order, and in 2001 approved a law on the prevention of illegal trafficking of narcotics and the establishment of the inter-ministerial drug control committee. On June 27, 2001, Albania became a party to the 1988 UN Drug Convention and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol.

## II. Status of Country

The government is continuing its efforts to build security and stability throughout Albania. Police professionalism has increased in the past five years, especially among units that defend public order. The judiciary is engaged in improving the criminal justice system with technical assistance from the United States Government, though it remains weak and subject to corruption. The previous government of Prime Minister Ilir Meta, who resigned on January 29, 2002, had begun, with international assistance, to implement commitments to crack down on organized crime. The new Prime Minister is expected to continue these efforts. The Albanian military and police work 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. The vast majority of interdictions, however, are actually organized and executed by the Italians.

Plagued by severe unemployment, crime, and lack of infrastructure, the Albanian public focuses little public attention or debate on 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. But Albania is experiencing an upsurge in drug abuse by younger Albanians. Heroin and marijuana abuse is growing; cocaine and crack are also available, but expensive, keeping their use more or less marginal. Heroin is imported from the Former Yugoslav Republic of Macedonia, but originates in Turkey or Afghanistan; marijuana is produced domestically. The UNDCP believes that drug use, especially among adolescents in cities, is on the rise. There are no special treatment centers for drug addicts, although the Tirana Military Hospital’s Toxicology Clinic treats overdose cases.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In 2001, the GOA approved a law on the prevention of the illegal trafficking of narcotics and on the establishment of the Inter-Ministerial Drug Control Committee. This law created a mechanism for national coordination of policies regarding use and trafficking of narcotics, and one of the

first tasks of the Inter-Ministerial Drug Control Committee will be the development of a national counternarcotics strategy. This law also established a framework to improve criminal investigations in drug-related cases by creating a formal structure for the Ministry of Public Order's counternarcotics service, originally established in 1998. The counternarcotics service currently includes 100 police officers and agents, but remains understaffed and ill equipped. While some of the service's counternarcotics units in Albania's 12 police directorates have received equipment from the UNDCP, the majority must rely on local police budgets, which do not allow for the purchase of vehicles or surveillance equipment. With international assistance, the GOA also established an anti-trafficking center in Vlora in 2001. While this office is still not staffed, the center offers a potential vehicle for the government to increase significantly its role in confronting trafficking in drugs, weapons, and persons. The GOA works with its Balkan neighbors bilaterally and in regional initiatives to combat organized crime. Albania is a participant in the Stability Pact and the Southeast European Cooperation Initiative (SECI).

**Law Enforcement Efforts.** Authorities report that in 2001, police arrested 353 persons for drug trafficking, all but four of whom were Albanian nationals. The police seized 4.5 kilograms of heroin, 266 grams of cocaine, 6,915 kilograms of marijuana, 600 grams of cannabis seeds, 2.8 kilograms of red poppy seeds, and 1.3 liters of methadone. Police also destroyed three cannabis laboratories. According to the counternarcotics service, police targeted larger smuggling operations in 2001, resulting in the seizure of U.S. \$1 million in cash and several key arrests. Police also have the power to seize assets, such as speed boats, used in smuggling operations, but only seized one boat in 2001 as a direct result of a drug investigation.

**Precursor Chemical Control.** Albania is not a producer of significant quantities of precursor chemicals. Albanian law does not address precursor chemicals.

**Cultivation/Production.** With the exception of cannabis, Albania does not produce illicit drugs. According to authorities of the Ministry of Public Order's counternarcotics service, cannabis is currently the only drug grown and produced in Albania, and is typically for consumption or sale in Belgium, France, Germany, Greece, and Italy. Metric ton quantities of Albanian marijuana have been seized in Greece and Italy. Counternarcotics authorities do not have the capacity to determine crop sizes and yields, but they estimate that police destroyed more than 281,000 marijuana plants in 2001 in 129 locations throughout Albania. Police also destroyed 100 red poppy plants in northern Albania in 2000 and seized 2.8 kilograms of red poppy seeds in 2001, but have detected no new poppy plantings. The Ministry believes that this may have been an experiment to see if poppies could be grown in Albania.

**Distribution.** Corruption among police and magistrates hampers efforts to crack down on drug distribution, though distribution is less of a problem than transit of illegal narcotics for international trafficking. However, police may become more effective at combating distribution as the capacity of the counternarcotics service develops.

**Drug Flow/Transit.** Heroin and cocaine are the main drugs that transit Albania. Authorities report that heroin typically follows through the "Balkan Route." Traffickers also use Albania as an entry point to Europe when smuggling cocaine by air from the United States and Latin America. Domestically produced marijuana is smuggled to Belgium, France, Germany, Greece, and Italy.

Organized crime plays a significant role in drug trafficking, including the facilitation of sales, financial arrangements, and smuggling. The government, with significant help from the Italian authorities, has made some progress in interdicting narcotics smugglers at sea.

**Agreements and Treaties.** The United States has an extradition treaty with Albania that entered into force on November 13, 1935. Albania signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants in December 2000. Albania became a party to the 1988 UN Drug Convention and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, on June 27, 2001.

The GOA is also reportedly preparing materials to accede to the 1971 UN Convention on Psychotropic Substances.

**Domestic Programs (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 collect little data and do not believe the problem is particularly widespread, owing both to traditional cultural norms and low levels of discretionary income. The UNDCP addresses demand reduction in Albania through youth sports activities. The GOA estimates as many as 30,000 drug users in Albania in 2000, six times the amount estimated in 1995; but NGOs believe the figure is closer to 10,000. Of the overdose cases treated at the Tirana Military Hospital's Toxicology Clinic, approximately 80 percent were injection drug users in 2001, up from only 20 percent in 1998.

**Corruption.** Corruption remains a deeply entrenched problem. While the GOA acts officially to combat drug trafficking, press reports have implicated government officials in smuggling operations. Low salaries and social acceptance of graft make it difficult to combat corruption among police, magistrates, and customs and border officials. If approved, a memorandum of understanding drafted in December 2001 between the Customs Service and the Border Police may help reduce the influence of corruption at Albania's borders by instituting counternarcotics inspections of shipping containers before they are sealed by customs agents. The Ministry of Public Order's Anti-Organized Crime Directorate became operational in January 2001 with technical assistance and training provided by the U.S. Department of Justice's ICITAP and OPDAT with funding by the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL).

#### IV. U.S. Policy Initiatives and Programs

**Bilateral and Multilateral Cooperation.** The GOA continues to welcome assistance from the United States and Western Europe. The United States is intensifying its activities in the areas of public order and legal reform. U.S. advisors work closely with the Ministry of Public Order and the Ministry of Justice to combat organized crime and trafficking and to improve border control. The U.S. Department of Justice's Border Patrol Tactical Unit conducted a comprehensive assessment in November and December 2001 of the capabilities of the Albanian Border Police and are developing proposals for initiatives to be implemented in 2002. Other USG, EU, and international programs include support for Albanian customs reform and enhanced border controls, continued judicial training, efforts to improve cooperation between police and prosecutors, and anticorruption programs.

**The Road Ahead.** The United States will continue to push the GOA to make progress on illegal drug trafficking, to use law enforcement assistance efficiently, and to support legal reform. U.S. assistance will continue to provide additional guidance and training to law enforcement and judicial bodies, including work on anti-trafficking and border security initiatives. Efforts by the EU, the UNDCP, and other international groups will provide the GOA with additional support.

# Armenia

## I. Summary

Armenia is not a major drug producing country and its domestic illicit drug consumption is relatively small. The Government of Armenia (GOAM), recognizing its potential as a transit route for international drug trafficking, has continued to work to improve its interdiction ability. The GOAM is currently considering draft legislation aimed at strengthening the police mandate to combat drug sales and trafficking. Together with Georgia and Azerbaijan, Armenia is engaged in a UN-sponsored “Southern Caucasus Anti-Drug Program” launched in 2001. Armenia is a party to the 1988 UN Drug Convention.

## II. Status of Country

As a Caucasian crossroad between Europe and Asia, Armenia has the potential to become a transit point for international drug trafficking. At present, limited transport between the country and its neighboring states makes Armenia a secondary traffic route for drugs; however, the Anti-Drug Department (ADD) of the Ministry of Interior expects an increase in drug trafficking. Iran, the Russian Federation, and Lebanon are the main countries involved in drug trafficking to Armenia. Seventy-five percent of all opiates smuggled from Iran transit Armenia. Armenia’s borders with Turkey and Azerbaijan remain closed due to the Nagorno-Karabakh conflict, but when these borders open, drug transit could increase significantly. Armenia’s Interior Ministry maintains considerable information about regional drug trafficking, including a database on drug-transit sources, routes, and the people engaged in transit. However, the Ministry’s ability to combat drug trafficking is limited due to scarce government and human resources.

Drug abuse is not a serious problem in Armenia, and the local market for narcotics, according to the ADD, is not large. The main drugs of choice are opium and cannabis. Heroin and cocaine first appeared in the Armenian drug market in 1996 and since then there has been a small upward trend in heroin sales. Statistics for 2001 show a downward trend in drug abuse and seizures compared with the previous years. The reduction, according to the Interior Ministry’s experts, is explained partly by emigration and partly by the deterioration of living standards, which has forced drug addicts to switch to other, cheaper or self-made types of drugs.

Estimates of the number of drug addicts in Armenia vary from the most conservative—7,000—to the highest—20,000. The second figure is the estimate of Seda Jamalian, Armenia’s chief drug abuse expert and Deputy Director of the Narcotics Dispensary, who estimates that 50 percent of Armenian drug addicts consume opiates. In light of regional trends, Jamalian’s higher estimates seem more likely to be accurate. Fewer than 300 addicts are registered with the Republican Narcotics Dispensary, which was established to treat addicts while gradually weaning them off their addiction. The average cost to the state of treating one drug addict is approximately U.S.\$250 over the several months that their detoxification/rehabilitation program normally lasts. This is a considerable amount in Armenia.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In 2001, Armenia, together with Georgia and Azerbaijan, joined the UNDCP South Caucasus Anti-Drug Program, aimed at harmonizing the counternarcotics legislation of the three Caucasus countries and drafting a model law on licit production of drugs available for use for all countries. According to the working group experts participating in the UNDCP program, this effort will include relevant changes and amendments in the new draft Armenian Criminal Code, which is anticipated to pass its third and final reading in 2002. In 2001, the draft “Law on Operative Investigative Activities” for the police, which regulates undercover operations and grants police officers the right to engage in “controlled

purchase/delivery” of drugs, was sent by the Cabinet to the GOAM ministries for consideration. Once it is approved by the ministries, it will be sent to the Parliament, where final approval is likely.

According to the Interior Ministry’s experts, Armenia’s accession to the Council of Europe (COE) in January 2001 and the country’s commitment to improve its human rights record as part of its COE obligations led to the suspension of the controversial Article 229, part 5 of the current Criminal Code, which provided for administrative punishment and a six-month probation for a first time drug user. This article has been deleted from the new draft Armenian Criminal Code. The draft Code also includes a provision that for the first time makes money laundering a criminal offense.

**Accomplishments.** The amount of drugs confiscated during the first nine months of 2001 totaled 8.177 kilograms. The Interior Ministry reported that during the first nine months of 2001, the police eradicated 173,980 kilograms of wild (green) hemp and 3,379 kilograms of poppy under the Hemp and Poppy 2001 program.

**Law Enforcement Efforts.** In 1999, the Interior Ministry deployed joint teams of Armenian police and Customs representatives at each Customs post and checkpoint. The Ministry obtained 15 drug-sniffer dogs from Western Europe for use in screening for drugs. The canine program went well initially; however, training of the dogs has not been adequately maintained and their skills are not exercised on a regular basis, resulting in steadily decreasing skills of the dogs in the program.

**Corruption.** Although corruption is endemic in Armenia, there were no cases reported of government officials being involved in drug-related corruption in 2001.

**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. In 2000 Armenia ratified the Memorandum of Understanding among the UNDCP, Armenia, Georgia, and Iran on the Cooperation in Drug Control and Activities to Combat Money Laundering. Armenia has also signed bilateral agreements on cooperation combating illicit traffic in narcotics and psychotropic substances with the Customs Services of Turkmenistan and Georgia, and the Customs Committee of Tajikistan. Armenia signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants on November 15, 2001.

**Cultivation/Production.** According to the Office of Procurator General, some hemp and poppy grows wild, primarily in Ararat and Gegharkunik provinces in northern Armenia, and to a lesser extent in the provinces of Armavir, Lori, and Syunik. According to the Office of the Procurator General, no illicit laboratories producing synthetic drugs were discovered in 2001.

**Drug Flow/Transit.** Drug transit is recognized as a serious concern for the GOAM; however, no estimates of the total amount of drugs transported through Armenia are available. The main drug routes run from Iran to Russia and Ukraine.

The following are approximate black-market prices for illicit narcotics in Armenia:

Opium, 1 kg	\$10,000
Marijuana, 1 kg	\$1,000
Hashish, 1 kg	\$5,000
Poppy straw, 1 kg	\$200
Heroin, 1 g	\$120-150
Morphine, 1 vial	\$5-8

**Domestic Programs (Demand Reduction).** According to health authorities, poor financing, a lack of communication with remote rural areas, and a lack of interest in counternarcotics campaigns from local NGOs prevent them from launching a wide-scale program aimed at demand reduction.

### **IV. U.S. Policy Initiatives and Programs**

The United States focuses on transit control and prevention in discussions with Armenian officials about counternarcotics controls.

Armenia and the United States signed a letter of agreement (LOA) on narcotics control and law enforcement on June 11, 2001. Under the agreement, the Department of State has granted funds for narcotics control and law enforcement assistance that will help establish an independent forensic institute to provide state-of-the-art forensic analysis, including drug testing.

# Austria

## I. Summary

Austria is primarily a transit country for drug trafficking from the Balkans to western European markets. Organized drug trafficking is performed largely by non-Austrian criminal groups. While Austrian authorities express concern over the continued rise of organized crime in the country (which they attribute predominantly to Mafia-type gangs from Russia and other former east bloc countries), a Europol official speaking on organized crime in December 2001 termed Austria “still one of the safest areas in Europe.” Illegal drug consumption is not a severe problem in Austria, and production or cultivation of illegal substances remains insignificant. In order to move more effectively against organized, drug-related crime, the Austrian law enforcement community in 2001 further intensified cooperation with counternarcotics agencies in Central Europe and relied on expanded investigative tools passed in recent years. The government’s establishment of a centralized, federal crime-fighting authority by 2002 is expected to make narcotics investigations more effective. In 2001, Austria continued to provide counternarcotics experts to Central Asian countries to help train local law enforcement officials. Cooperation with U.S. authorities remained excellent during 2001. Austria is a party to the 1988 UN Drug Convention.

## II. Status of Country

The year 2001 did not see any significant change in overall trends regarding drug-related organized crime, illegal drug trafficking routes, consumption, and distribution channels in Austria. Production of illicit drugs in Austria continues to be marginal. However, Austria remains a transit country for drugs transported by organized crime syndicates along the major European drug routes. Seizures of heroin rose to 230.7 kilograms in 2000. According to officials, preliminary data for 2001 indicated a further rise. Cocaine seizures (20.3 kilogram in 2000) were also expected to increase in 2001, while confiscation of MDMA (“ecstasy”) (162,000 units in 2000) remained at approximately that level in 2001. The number of drug-related deaths rose from 215 to 227 in 2001. Unofficial estimates place drug-related crime at about 30 percent of all offenses. Most organized drug crime is traced back to the NIS (Newly Independent States).

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** As of June 1, 2001, amendments to the narcotic substances act passed by Austria’s center-right government became effective. Under the revised law, drug dealers of a criminal organization may face up to life for large-scale drug dealing. The amendment introduced minimum penalties of at least three years in prison for drug trafficking crimes. The law also, for the first time, penalizes the promotion of illicit drug consumption on the Internet.

In April 2001, the limit quantity of heroin was reduced from five grams to three grams. In December 2001, a Vienna court sentenced a Nigerian asylum applicant to nine years in prison on charges of having operated an international drug ring over the past few years. Following several drug-related arrests in the wake of police raids of asylum homes housing African asylum seekers, conservative policy-makers have called for swift expulsion of any asylum seeker caught dealing drugs. Throughout 2001 there was also intense public discussion of obligatory drug tests for drivers and would-be teachers—a government policy initiative, which met with criticism from some sectors. Under existing legislation, first-time users of cannabis may avoid criminal proceedings if they agree to therapy. Austria punishes traffickers and treats and educates abusers. Austrian drug users tend toward polydrug abuse. In 2001 amphetamine (speed) and cocaine have become somewhat more popular than opiates among young addicts.

In October 2001, the government lifted a sunset clause on a sensitive law providing for expanded police powers and made it permanent. This law targets organized crime as it authorizes investigators to collect and analyze information about likely extremist/terrorist groups without judicial approval and prior to the establishment of “substantiated suspicion.”

Vienna is the seat of the UNDCP, and Austria has been a “major donor” to the UNDCP for years. It has pledged ATS 6.67 million (U.S. \$442,000) for 2001.

Within the EU’s Schengen framework, Austria is drafting a proposal for a systematic program to improve border/customs controls of five Central Asian republics.

Since 1998, Austria has been a full member of the Schengen process, which allows countries to eliminate passport control and visas for internal travel among European member states. It has invested an equivalent of U.S. \$300 million for Schengen-related measures. The city of 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 2001 the UN and Austria awarded the prize to four private initiatives from Algeria, Burundi, Indonesia, and Peru.

**Accomplishments.** With the support of the DEA office at the U.S. Embassy in Vienna, Austrian police seized 10.5 kilograms of heroin in December 2000. A related investigation later led to seizure of 51 kilograms of heroin in Germany. In May 2001, 100,000 ecstasy tablets were seized and two arrests made. Following a joint investigation by Austrian and Turkish national police forces and DEA, 5 kilograms of heroin and 13 kilograms of hashish were seized in June 2001. In August 2001, 30,000 ecstasy tablets were seized leading to four arrests. In October 2001, 2.2 kilograms of heroin was seized at Vienna’s Schwechat Airport, which led to further seizure of 4 kilograms of heroin and five arrests in Bangkok. In December 2001, 50,000 ecstasy tablets were seized, leading to three arrests.

In 2000, authorities registered 17,568 cases of domestic drug-related criminal offenses, 2.07 percent more than in the previous year. Figures for 2001 are not yet available, but no major changes in these figures are expected for this year. According to a 1998 study, the country spent about U.S. \$135 million annually (i.e., 0.27 percent of total budget outlays that year) to combat illegal drugs. Two-thirds of this amount went into law enforcement efforts.

In 2001 Austria continued its transfer of illicit drug investigation expertise to Central Asian countries by sending experts to the region who trained local authorities in counternarcotics measures. Austria further intensified its cooperation with law enforcement authorities in Central and Eastern Europe—most visibly at a June 2001 meeting of interior ministers from the Czech Republic, Slovakia, Hungary, Slovenia, and Poland. Austria continues to cooperate within EU fora, prioritizing social and health policy measures and urging inclusion of NGOs at the planning stages of the ECU’s counternarcotics strategy plans.

**Law Enforcement Efforts.** For the year 2001, law enforcement authorities expect a higher number of seizures for heroin and cocaine, and largely unchanged seizure levels for ecstasy compared to 2000. That year, authorities seized 230.75 kilograms of heroin, 20.38 kilograms of cocaine, 1,806.50 kilograms of cannabis-related substances, and other narcotic substances. Out of 17,568 drug-related offenses in 2000, 556 were related to illegal possession of psychotropic substances. One offense was registered in 2000 regarding precursor materials.

Unofficial estimates note that the overall number of illicit drug abusers—believed to range between 15,000 to 20,000—remained stable in 2001. A 2001 field study extrapolated that 20 percent of Austrians above 15 had had “some experience” with cannabis, 4 percent with ecstasy, and 1 percent have tried opiates. One gram of street heroin (purity between 8 percent and 16 percent) sold for 36 EUR in 2000, and one ecstasy tablet was sold for EUR 11. The number of drug-related deaths in 2000 was 227, and by November 2001 authorities had registered 177 cases of suspected drug-related deaths.

**Corruption.** Austria has been a party to the OECD Anti-Bribery Convention since 1999. The GOA’s public-corruption laws recognize and punish the abuse of power by a public official. Recent legislation has eliminated tax deductibility of bribes. No records exist yet to assess the degree of enforcement. There are



no cases pending at the moment 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, including corruption relating to the laundering of proceeds from illegal drug transactions.

**Agreements and Treaties.** Austria is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol amending the Single Convention on Narcotic Drugs. The U.S.-Austria Mutual Legal Assistance Treaty, signed in 1995, was ratified by the Austrian Parliament in June 1998 and entered into force on August 1, 1998. An updated extradition treaty between the United States and Austria became effective in January 2000. It replaced a 1930 extradition treaty with Austria 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. Also, the treaty contains a provision that would permit Austria to require a formal assurance prior to extradition that the death penalty would not be imposed or carried out. The United States and Austria have a 1931 arrangement for the direct exchange of information regarding traffic in narcotic drugs.

In December 2000, Austria signed the Council of Europe's agreement on illegal drug trafficking at sea, a legal instrument that implements Article 17 of the 1988 UN Drug Convention.

In December 2000, Austria signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** The U.S. government is not aware of any significant cultivation or production of illicit drugs in Austria.

**Drug Flow/Transit.** Organized drug trafficking is carried out by foreign criminal groups (Turks, Albanians, and others from the former Yugoslavia) which are well established on major European drug routes, particularly along the Balkan route. Illicit drug trade by Austrian nationals is negligible. The nearby Slovak capital of Bratislava serves as a temporary heroin depository for traffickers. Couriers from South American drug cartels import most of the cocaine that transits Austria. In 2000, 80 percent of the cocaine that transited Austria was destined for Italy, and the remaining 20 percent were destined for other EU countries. This illicit trade increasingly relies on Central and East-European airports, including Austria's. Couriers are mostly individuals from source countries, particularly African nationals, but also Croatian, Yugoslav, and Romanian nationals. Over 90 percent of the heroin that enters Austria (mostly for transit) comes from the diverse venues of the Balkan route. Trafficking and consumption in Austria of ecstasy products, originating in the Netherlands, continued to rise in 2001. Illicit trade of amphetamines, carried out by criminal groups from Poland and Hungary, as well as of cocaine, also increased. In a new development, biogenic drugs (mushrooms, cacti, etc.) have become popular among young drug users in certain regions of the country.

**Domestic Programs (Demand Reduction).** Austrian authorities and the public generally view drug addiction as a disease rather than a crime. This is reflected in rather liberal drug legislation and in related court decisions. In a 2001 amendment, the center-right government took a somewhat more restrictive approach by lowering the permissible amount of heroin from five to three grams, before criminal sanctions are imposed. Overall, federal and state authorities remain committed to Austria's "balanced, comprehensive" drug policy focusing on health and social policy measures designed to prevent social marginalization of drug addicts. The government and regional authorities routinely sponsor treatment centers. Federal guidelines ensure minimum quality standards for drug treatment facilities. The use of heroin for therapeutic purposes is generally not allowed. Demand reduction puts emphasis on primary prevention, drug treatment, and counseling, as well as "harm reduction." New challenges in demand reduction are the need for psychological care for drug victims, and greater attention to older victims and immigrants.

Primary intervention starts at the pre-school level, extends to apprenticeship institutions and includes out-of-school youth programs. Special emphasis is placed on multipliers, i.e., authority figures, such as teachers and coaches. Each of Austria's nine states maintains addiction prevention units, which, inter alia, use the Internet as a venue. The government and local authorities routinely sponsor "educational campaigns" inside and outside school fora, e.g. mass media campaigns. Overall, youths in danger of addiction have become the prime target of new treatment and care policies.

Austria has syringe exchange programs in place for HIV prevention. Available data for 2000 indicate a stable HIV prevalence rate at a low level (0 percent to 5 percent) while the hepatitis prevalence rates among intravenous drug abusers remain high (Hepatitis C: 48 percent to 71 percent; Hepatitis B: 25 percent to 47 percent). The trend toward diversification in substitution treatment (methadone, prolonged-action morphine, and buprenorphine) continued.

#### **IV. U.S. Policy Initiatives and Programs**

**Bilateral Cooperation.** Austrian cooperation with U.S. investigative efforts is excellent, even though Austria has no specific bilateral narcotics agreement with the U.S. Austrian Interior Ministry officials have consulted the FBI on know-how designed to help update Austrian criminal investigations. Austria and the United States operate a joint "contact office" in Vienna which serves as a key facilitator for flexible and speedy anticrime cooperation. In 2001, the DEA, through its office in the U.S. Embassy in Vienna, again assisted in training Austrian drug undercover officers.

U.S.-Austrian negotiations on the establishment of an Interior Ministry liaison office at the Austrian Embassy in Washington, D.C. continued in 2001. The office would handle bilateral issues involving all forms of crime, including illegal narcotics.

**The Road Ahead.** The United States will continue to support Austrian efforts to create more effective tools for law enforcement, as well as to work with Austria within the context of U.S.-EU initiatives, the UN, and the OSCE.

# Azerbaijan

## I. Summary

Azerbaijan is located along a drug transit route running from Afghanistan and Central Asia west into Western Europe, and from Iran north into Russia and west into Western Europe. Consumption and cultivation of narcotics are low, but levels of use are increasing. During 2001, the main drugs seized were opium and cannabis. Section 907 of the FREEDOM Support Act precluded the funding of U.S. counternarcotics assistance to Azerbaijan in 2001. 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 conflicts in several countries of the former Yugoslavia. Narcotics from Afghanistan 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, and 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 14,760 persons registered in hospitals for drug abuse or treatment in Azerbaijan. The actual level of drug abuse is estimated to be many times higher. The Government of Azerbaijan (GOAJ) continues to claim that parts of Azerbaijan occupied by Armenia are used for drug cultivation. The GOAJ also maintains that narcotics are transported across the approximately 130 km of Azerbaijan's border with Iran that is under the control of Armenian forces.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The "State Committee on Drug Control," headed by Deputy Prime Minister Ali Hasanov, continues to lead counternarcotics policy initiatives. The Committee has a regional branch in Lenkoran in the south and in 2001 opened a second in Ganja. The Ministry of Internal Affairs has continued its program in the southern portion of the country along the border with Iran, that organizes local counternarcotics police officials to work closely together across local jurisdictions. It has begun similar programs in Sumgayit near Baku and Ganja in western Azerbaijan.

**Accomplishments.** A new criminal code entered into force in September 2000 that contains special provisions dealing with crimes related to trafficking in narcotics. Initial experience with the new code in 2001 was very positive.

**Law Enforcement Efforts.** There were 2,017 drug-related arrests during the first ten months of 2001. Police lack basic equipment and have little experience in modern counternarcotics methods. Border control capabilities on the border with Iran and maritime border units are inadequate to prevent narcotics smuggling. In 2001 Customs officials seized a vessel in the port of Baku carrying 48 tons of poppy seeds from Afghanistan.

**Corruption.** Corruption permeates the public and private sectors. Government officials including the President and Prime Minister have remarked on the gravity of the problem. 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 on Narcotic Drugs, as amended by the 1972 Protocol. Azerbaijan signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants in December 2000.

**Cultivation/Production.** Cannabis and poppy are cultivated illegally, mostly in southern Azerbaijan. During the first ten months of 2001, law enforcement authorities discovered and destroyed about 358 tons of hemp and poppies that were under cultivation on 345 hectares of land.

**Drug Flow/Transit.** Narcotics traffickers seem to rely on familiar transit routes. Opium and poppy straw originating in Afghanistan transit through Azerbaijan from Iran, or from Central Asia across the Caspian Sea. Drugs are also smuggled through Azerbaijan to Russia, then on to Central and Western Europe. Azerbaijan cooperates with Black Sea and Caspian Sea littoral 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 that they have received good cooperation from Russia, but have encountered considerable reluctance from Iran to assist in counternarcotics efforts.

**Domestic Programs (Demand Reduction).** Opium and cannabis products are the most commonly used drugs. The GOAJ has begun education initiatives directed at curbing domestic drug consumption.

#### **IV. U.S. Policy Initiatives and Programs**

**Bilateral Cooperation.** The exchange of information between U.S. and Azerbaijan law enforcement officials increased in 2001. Nonproliferation assistance to the Border Guards and Customs is providing modest, indirect help to the government's efforts to fight drug trafficking, but the impact is not substantial. As a matter of policy, consistent with the restrictions set out in section 907 of the FREEDOM Support Act, INL has not provided counternarcotics/anticrime assistance to the GOAJ.

# Belarus

## I. Summary

The economic, political, and geographical situation of Belarus gives it the potential to become a major drug transit and synthetic drug production site. Deteriorating economic conditions and a sharp drop in real wages continue to dislocate many workers and, among some in the population, encourage the belief that wealth can and should be acquired by any means possible. The Belarusian government currently lacks both the legislative framework and the financial resources to combat drug trafficking. Belarus' location between Russia and the west combined with its good rail and road transportation system and a customs union with Russia that eliminates internal borders between the two countries add to Belarus' potential as a narcotics transit corridor.

Belarus also faces many organized crime problems that plague other countries of the former Soviet Union. The lack of Belarusian laws on organized crime could lead syndicates to use Belarus for not only drug production and trafficking, but also other drug related crimes such as money laundering.

## II. Status of Country

According to Ministry of Health data, the number of officially registered drug addicts in Belarus totals 5,000, with an estimated 700 to 800 new registrants per year. These statistics do not take into account unregistered addicts which are estimated to exceed the nominal 5,000 figure by a factor of ten. The drugs of abuse of choice in Belarus are opium derivatives like poppy oil. Cannabis is also widely abused. However, synthetic drugs, heroin, cocaine, barbiturates, and other drugs are being used in increasing amounts.

The Minsk office of the UN High Commissioner for Refugees reports that many illegal immigrants in Belarus finance their trips to the West through narcotics smuggling.

Belarus has all the resources necessary for the production of synthetic narcotics. The laboratory and technical capabilities are in place while many industrial facilities suitable for basic chemical production are idle. Law enforcement is not trained in the detection of synthetic drug manufacturing facilities. There is no legislation in Belarus dealing with precursor chemicals; the chemical industry, all government owned, is allowed to police itself. Control of precursor chemicals is not an issue that appears to be on the agenda of policy makers, or even law enforcement officials.

## III. Country Actions Against Narcotics in 2001

**Drug Flow/Transit.** Belarus is growing in importance as a transit country. Good rail and road connections running east to west and north to south are used to transport narcotics from areas such as Ukraine, Central Asia, the Caucasus, and Russia to the Baltic States, Poland, and Germany. Cases of drug heroin trafficking from Afghanistan destined for Poland and Germany have increased dramatically as a result of the customs union that eliminated internal borders between Belarus and Russia.

**Domestic Programs (Demand Reduction).** No national drug abuse prevention strategy has been formulated in Belarus. The main emphasis is put on treatment and social rehabilitation of current drug addicts, while only limited efforts are devoted to prevention programs. Treatment for drug addicts is generally done in psychiatric hospitals, either as a result of Court Remand or self-enrollment. The emphasis of treatment is medical detoxification. Psychological counseling, and social rehabilitation is beyond the capacity of local institutions.

**Law Enforcement Efforts.** Many crimes are associated with narcotics trafficking in Belarus. Smuggling is the most significant. Other crimes include: stealing narcotic and addictive substances, organizing or maintaining drug dens for using drugs, and forging medical documents with the aim of procuring drugs. There were 1,252 criminal cases related to illegal drugs in 1998 and 3,018 drug-related offenses during the same year. (More recent statistics are unavailable.)

In 2001, there were no significant arrests or seizures of drugs, despite evidence of growing abuse and trafficking, but the first months of 2002 brought some large drug seizures.

The enforcement effort against narcotics in Belarus suffers from lack of efficient coordination among the agencies charged with various aspects of narcotics control. The Ministry of Internal Affairs, KGB (External Intelligence), Customs Committee, Border Guards, and Ministry of Health are all involved. An interagency commission for combating crimes and drug abuse is supposed to coordinate the effort, but problems persist.

Belarusian law does not provide for the seizure of assets of drug criminals. (Asset of businesses and political groups are routinely seized by the government.) There is not even provision for enforcement of correct title. For example a person found to have purchased a car stolen from Germany may keep the car as long as it was purchased legally in Belarus.

**Agreements and Treaties.** Belarus 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. Belarus has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

Belarus is a member of INTERPOL and has a department of 12 people dealing with cross border crime. Belarus has also joined regional efforts at law enforcement cooperation and has signed bilateral agreements on cooperation against organized crime and drug trafficking with many of its neighbors. Belarusian ruler Lukashenko has emphasized in policy statements the importance of strengthening the state's capacity to fight organized crime and drug trafficking.

Belarus signed an agreement in 1993 on drug control assistance with Italy, and plans to conclude similar agreements with Austria, Bulgaria, Sweden, and Germany. The GOB has also signed enforcement cooperation agreements with Lithuania and China. Belarus is a party to the CIS (Confederation of Independent States-Soviet successor states) Convention on Legal Assistance.

#### **IV. U.S. Policy Initiatives and Programs**

The United States has not provided narcotics/justice sector assistance to the GOB since a U.S. policy of selective engagement became effective in February 1997.

# Belgium

## I. Summary

The Kingdom of Belgium continued to be an important producer and transit point of synthetic drugs. Police report that through November 2001, six amphetamine-type stimulant (ATS) laboratories were seized and destroyed, down from ten ATS labs seized in 2000. Belgium ranks second worldwide, behind the Netherlands, in ATS production. Belgium is a major trader in chemicals and an important transit country for precursor chemicals used in the illicit manufacture of cocaine, heroin, and ATS. Narcotics traffickers continue to exploit Belgium's large port facilities, transportation infrastructure, and central location in Western Europe for transshipment of illicit drugs. The increase in the incidence of trafficking in MDMA ("ecstasy"), which began in 1999, continued unabated in 2001. The United States remains the most lucrative destination for ecstasy manufactured and transited from and through Belgium, although evidence to date does not support a finding that ecstasy that transits Belgium en route to the United States has a significant effect on the United States. Belgium's contribution to the UNDCP's budget, as a major donor, rose to \$500,000 in 2001. Belgium is a party to the 1988 UN Drug Convention.

## II. Status of Country

Historically, Belgium has not been a significant producer of illicit narcotics or precursor chemicals. However, starting in 1999, Belgium became a producer of ATS drugs; police seized four ATS laboratories that year. In 2000, police seized ten ATS labs and from January to November 2001, police seized six ATS labs. Dutch traffickers were found to control most of the operations seized in Belgium. Authorities suspect that Dutch synthetic drug producers are periodically shifting operations over the border from the Netherlands to avoid mounting law enforcement pressure there and to create cross-border, jurisdictional problems. Couriers and express mail remained popular forms of delivery during the year. An emerging trend is for the export of very large shipments (500,000 to 1,000,000 tablets), concealed in maritime shipments.

Although Belgium is not a major producer of precursor or essential chemicals used in the illicit manufacture of drugs, it is an important transshipment point for these chemicals. Precursor chemicals that transit Belgium include acetic anhydride (AA) used in the production of heroin, PMK, and BMK used in the production of ecstasy, and potassium permanganate used in cocaine production.

Hashish and cannabis continue to be the most widely distributed and used illicit substances in Belgium, but heroin abuse produces the most important health and social problems, including drug-related crime. Over the last several years, Belgium has emerged as a growing cultivator of cannabis. In 2001 police seized seven greenhouse and hydroponic growing facilities. In 2000, Belgian police seized 15 cultivation labs. Belgian authorities attribute the growth of cannabis production to the influence of Dutch organized crime groups.

Belgian authorities recognize the growing threat posed by trafficking in ecstasy and have taken steps to curb the problem. In January 2001, Belgium established a National Security Plan that identified synthetic drugs as the highest drug priority. Approximately 1.6 million ecstasy tablets were seized in Belgium in 2001.

Heroin trafficking into Belgium remains under the control of Turkish trafficking groups. Authorities estimate that 75 to 80 percent of the Belgian heroin market is controlled by these Turkish groups. Additionally, Belgium is an important transit route for heroin destined to other European markets, particularly the UK and the Netherlands.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In a sweeping reorganization carried out during 2001, the former Police Judiciare and the Gendarmerie merged at the federal level to form a new federal police force responsible for internal security and nationwide law and order issues. Local Gendarmeries merged with local police forces and now operate as local branches of the federal police. Investigations of drug trafficking fall under the newly created Directorate General Judicial. The Directorate oversees all crimes against persons, including drugs, terrorism, trafficking in persons, and crimes of violence.

The reorganization plan also established a new federal prosecutor's office. This office, expected to be operational in early 2002, will have jurisdiction over major federal cases and will consist of 18 prosecutors and a chief prosecutor.

A new National Security Plan, approved in 2001, includes a drug control strategy that identifies the fight against illicit synthetic drugs as the number one priority. The plan received wide political support and listed three primary objectives: 1) dismantling illicit labs; 2) enhancing interdiction of drugs to be shipped abroad, with the United States identified as the primary export destination; and 3) implementing joint investigations with neighboring countries, particularly the Netherlands.

In its EU Presidency role (July-December 2001), Belgium proposed that the EU undertake a feasibility study to examine the issue of tracing precursor chemicals used in the illicit production of drugs to their source. (For additional details see the Chemical Controls chapter of this report.)

**Accomplishments.** Belgium organized a high-level conference in January 2001 in Ghent, entitled "Strategies of the EU/US in Combating Transnational Crime." The conference included modules focused on cooperation to combat drug trafficking and was widely attended.

Belgium, in conjunction with the UNDCP, also organized a high-level conference on synthetic drugs. Prime Minister Guy Verhofstadt hosted the conference, which focused on demand and supply reduction and produced a list of conclusions to serve as the basis for future action.

Belgian authorities announced plans in 2001 to establish a national Synthetic Drugs Cell (SDC). The SDC will serve as an advisory panel for policy makers on demand and supply reduction, treatment, and preventive aspects of the synthetic drug problem. The SDC will comprise representatives from the Ministries of Health, Justice, and Home Affairs and the federal police, with ad hoc participation by other government entities where appropriate. The SDC is expected to be operational by mid-2002.

**Law Enforcement Efforts.** Belgian law enforcement authorities actively investigate individuals and organizations involved in illegal narcotics trafficking into and through Belgium. The newly reorganized federal police concentrate their investigative efforts on trafficking of synthetic drugs, cocaine, and heroin. In various cities, including Brussels and Antwerp, the federal police have formed specialized units that investigate synthetic drugs. At Brussels Zaventem Airport, the federal police have trained private airport personnel in order to raise awareness levels about drug trafficking. As a direct result of this training, Belgian authorities have intercepted couriers possessing ecstasy shipments destined for the United States. Joint investigations between Belgian and U.S. authorities remained at a very high level of cooperation throughout the year.

Belgium is one of the preferred transit routes for organizations trafficking ecstasy to the United States, although available evidence does not suggest that ecstasy entering the United States from Belgium has a significant effect on the United States. Most of the ecstasy trafficked through Belgium originates in the Netherlands. Dutch trafficking organizations commonly use Brussels Zaventem Airport as a transit point for drug couriers en route to the United States. Despite a lack of sufficient resources and manpower, Belgian customs authorities stationed at the Antwerp seaport and at Brussels Zaventem Airport were highly proactive in their searches and inspections. Airport-based officers report a high degree of success in seizing shipments of ecstasy destined for the United States. Ecstasy seizures at the airport increased from



296,000 tablets in 1999 to 478,000 in 2000. (Statistics for 2001 are not yet available.) Most such seizures came from express mail or postal packages.

Customs officials report that a five-person team of inspectors is responsible for all port activities involving drugs. Officials report that 3,000-4,000 containers are loaded and unloaded at the port of Antwerp on a daily basis. The inspection team has the capacity to search five to ten containers per week. In addition to containerized freight, customs also reports increased activity involving the ships' crew members. This entails the smuggling of smaller quantities of drugs by individual crew members and larger operations where crew members arrange to off-load large amounts of drugs from the ship before it reaches the dock.

**Corruption.** Corruption is not judged a problem within the narcotics units of the law enforcement agencies. Legal measures exist to combat and punish corruption.

**Agreements and Treaties.** Belgium is a party to the 1988 UN Drug Convention. Belgium is also a party to the 1961 Single Convention on Narcotic Drugs, the 1972 Protocol amending the 1961 Single Convention on Narcotic Drugs, and the 1971 UN Convention on Psychotropic Substances. In December 2000 Belgium signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

The United States and Belgium have an extradition treaty in force, as well as a mutual legal assistance treaty, which entered into force in January 2000.

The Belgian Navy and the U.S. Coast Guard signed a memorandum of understanding in March 2001 formalizing the Belgian Navy's participation in the Caribbean Maritime Counterdrug Initiative. The first Belgian Navy vessel deployment in support of this initiative is expected in 2003.

Belgium entered into bilateral police cooperation agreements with Estonia, Latvia, and Slovakia in 2001. The agreements are wide-ranging and provide a framework for cooperation on narcotics matters. Negotiations are ongoing for similar police cooperation agreements with Lithuania and the Czech Republic. Belgium entered into a bilateral police cooperation agreement with Poland in 2000. The Belgian Ministry of Justice maintains drug liaison offices in more than a dozen foreign cities with territorial competence for 33 countries. The drug liaison offices in Bangkok, Bogota, Bucharest, The Hague, Istanbul, Madrid, Moscow, Paris, Rabat, Rome, Vienna, Warsaw, Washington, and Wiesbaden are staffed by federal police officers.

Belgium is a member of several international counternarcotics 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 UNDCP. Belgium ratified the Europol Convention in June 1998.

**Cultivation/Production.** Belgian federal police have observed a new and significant trend in cannabis cultivation. Authorities believe that Dutch-based traffickers and cultivation equipment and supply companies have adopted an aggressive marketing strategy aimed at Belgium. The objective of the marketing campaign is to persuade Belgians to grow and harvest cannabis for Dutch distributors. Dutch companies advertise incentives for Belgian growers on the Internet. These incentives include offers of free cultivating equipment in exchange for the first cannabis harvest. Authorities report that many Belgians pursue these offers on the mistaken belief that cannabis production is not illegal in Belgium. The misperception is rooted in a pending government proposal to decriminalize cannabis possession for personal use. The proposal, which has not yet become law, would not alter the illegality of the sale, distribution, cultivation, and trafficking of cannabis.

Although the number of seizures of ATS labs dropped from ten in 2000 to six in 2001 (as of November), Belgian authorities continue to view the production of ATS drugs as a significant problem.

**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 ten to 15 kilograms. Customs reports that because Antwerp is considered a “free trade zone,” traffickers know that inspections of containerized freight are minimal. These shipments take one of two trafficking routes: in northern Europe through Hungary, Poland, the Czech Republic, Slovakia, and Austria, or in southern Europe through Italy. Cannabis imported into Belgium, not Dutch in origin, generally originates in Morocco, Latin America, or Southeast Asia and arrives via land, air, and sea routes.

Express mail companies in and around Brussels are commonly used by trafficking organizations to smuggle ecstasy tablets into the United States. The express mail method of transport is particularly popular with import organizations in Los Angeles, New York, and Florida. Dutch groups utilize the Belgian postal system to send packages containing drugs to U.S. destinations. Israeli criminal organizations continue to play a prominent role in the transportation of ecstasy from producers in the Netherlands and Belgium to distributors in the United States. Belgian authorities are cooperating with U.S. law enforcement agencies to disrupt this transit route.

**Demand Reduction (Domestic Programs).** Belgium has an active counternarcotics educational program that targets the country’s youth. The regional governments (Flanders, Wallonia, and Brussels) now administer such programs. The programs include education campaigns, drug hotlines, HIV and hepatitis prevention programs, detoxification programs, and a pilot program for “drug-free” prison sections. In contrast to the U.S. approach, Belgium directs and targets its programs at individuals who influence young people versus young people themselves. Teachers, coaches, clergy, and the like are employed to deliver the counternarcotics message to the target audience because young people already know and respect them.

Belgium participated in a training program in 2000 with the U.S.-based DARE program. DARE officials traveled to Belgium to sponsor a “train the trainers” project. Belgium-based trainers are now qualified to teach the DARE program to other demand reduction officers in Europe.

#### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** Cooperation between the United States and Belgium continues to be outstanding. The number of cooperative drug investigations, the majority of which pertain to ecstasy trafficking, continues to increase. Belgium’s role as a large producer and exporter of ecstasy, coupled with the role of the United States as a large and lucrative market, has generated a high level of investigative interaction. As a result, the number of International Controlled Drug Delivery (ICD) operations between Belgium and the United States has increased. These ICDs have been particularly effective in combating ecstasy trafficking between the two countries. A number of requests for assistance under the Mutual Legal Assistance Treaty were exchanged between the two countries throughout the year.

The DEA and the FBI enjoy close and effective cooperation with the Belgian federal police. U.S. law enforcement agencies represented in Brussels enjoy excellent working relationships with offices of the Belgian national magistrates and prosecutors.

The DEA’s office in Brussels and the Belgian federal police regularly exchange intelligence information concerning trends and techniques employed by ecstasy trafficking organizations operating between Belgium and the United States. This exchange of information (including arrest and seizure statistics) enables both countries to anticipate emerging patterns of drug transportation. Belgian police have initiated an intelligence program targeting outbound commercial flights from Belgium to the United States.

**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 of countries concerned with narcotics trafficking.

# Bosnia and Herzegovina

## I. Summary

Bosnia and Herzegovina remains a small but growing market for drug consumption, and has emerged as a regional hub for narcotics transshipment. Despite increasing law enforcement cooperation, gradual improvements in oversight of the financial sector, and several drug seizures, local authorities are still politically divided, law enforcement efforts still poorly coordinated, and the justice system still antiquated and inadequate. The narcotics trade remains an integral part of the influence of foreign and domestic organized crime figures and ethnic extremists who operate with the tacit acceptance—if not active collusion—of corrupt public officials. Bosnia is a party to the 1988 UN Drug Convention and is attempting to forge ties with regional and international law enforcement agencies. Border and customs controls are improving, but grave flaws in the regulatory structure and justice system, coupled with a lack of attention by Bosnia's political leadership have left few practical impediments to narcotics trafficking and related crimes in Bosnia.

## II. Status of the Country

Bosnia occupies a strategic position along the historic Balkan smuggling routes between drug production and processing centers in Southwest Asia (Afghanistan) and markets in Western Europe. The “Balkan Route” has been an important trafficking route from production/refining areas to Europe for years. During the Bosnian conflict, narcotics trafficking reflected the general breakdown of law and order and allowed some of the warring parties to generate revenue. Bosnian authorities at the state, entity, cantonal, and municipal levels have been unable to stem the continued transit of illegal aliens, black market commodities (especially cigarettes), and narcotics since the conclusion of the Dayton Accords. Traffickers have capitalized in particular on minimal border controls, an ineffective judicial system, widespread public sector corruption, and poor coordination among law enforcement authorities. Although Bosnia is not a major transit country for illicit drugs entering the United States, it remains a country of concern to the United States.

Information on domestic consumption is not gathered systematically, but anecdotal evidence indicates that drug abuse is increasing. In Sarajevo this summer, three young men and women died from heroin overdoses, bringing the total confirmed heroin-related deaths to 15 since the end of the war in 1995. Statistics show that despite limited financial means, 20 to 30 percent of high school students have used drugs at least once in their lives. According to a recently published article, Bosnian drug addiction has risen rapidly over the last two years and Tuzla Canton, representing roughly 14 percent of Bosnia's population, has treated 400 heroin overdose cases.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Although Bosnia has neither a national police force nor a national counternarcotics strategy, the initial deployment of the State Border Service (SBS) in June 2000 has improved controls at a limited number of international crossing points. Telephone hotlines, local press coverage, and public relations efforts organized by the international community have focused public attention on smuggling and black marketeering. Foreign donors continue to provide law enforcement assistance training to Bosnian authorities both on a bilateral basis and through international agencies. The United States' bilateral law enforcement assistance program continues to emphasize counternarcotics and law enforcement training, targeted on units charged with narcotics law enforcement.

**Accomplishments.** Under close supervision by the international community, Bosnian law enforcement agencies have taken initial steps toward substantive cooperation on the counternarcotics front, most

notably with the formation of an inter-entity joint task force. At the state level, criminal procedure and criminal justice codes are being revised and strengthened, with the entities reportedly set to adopt consistent codes next year. In August, the Federation adopted legislation governing criminal procedures and the creation of more sophisticated law enforcement surveillance units, though only one of 18 established positions has been filled. The Republika Srpska (RS) followed suit with similar legislation in November. Recent improvement in relations with the Federal Republic of Yugoslavia, working-level cooperation with Slovenian and Croatian law enforcement authorities, and potential upgrades in Bosnia's Interpol office may also presage progress in these areas.

Less porous borders should also help stem the flow of illicit goods through Bosnia. The United Nations Mission to Bosnia and Herzegovina (UNMIBH) currently reports that the SBS is roughly 75 percent deployed, though the task of building a viable border service is far from three-fourths complete. Most checkpoints are minimally staffed and many crossings are severely understaffed, bordering on unsafe staffing levels. With significant USG and international community financial assistance and technical support, computerized tracking information systems have been installed at Sarajevo airport. But the rest of the SBS lacks even the most basic command, control, and communication expertise, technology, and equipment, as well as adequate professional training. Banja Luka International Airport was recently turned over to the SBS. Mostar and Tuzla airports, currently closed to international air traffic, will be put under SBS control early in 2002. Noting that the routes for trafficking in drugs and in persons are often the same, the USG has begun close liaison with the SBS to improve transborder law enforcement.

There are now counternarcotics law enforcement units in each of the ten Federation cantons, ranging in size from 11 persons in Sarajevo Canton to two persons in smaller cantons. Yet information exchange among the ten cantons' police forces—so important for effective law enforcement—is virtually nonexistent. Each canton is separately administrated and budgeted, essentially independent of Federation-level coordination or control. The lone RS counternarcotics unit is based in Banja Luka.

Neither the RS nor the Federation has made significant progress in addressing the paralyzed legal environment that allows criminals to act with virtual impunity. Law enforcement cooperation is primarily informal and ad hoc. Mutual legal assistance is severely limited by the judicial bureaucracy, and serious legal and bureaucratic obstacles to the effective prosecution of criminals remain in place. Moreover, Bosnia has not sent any officials to Southeast Europe Cooperation Initiative (SECI) counternarcotics meetings in Bucharest due to an inability to resolve who the representatives should be.

**Law Enforcement Efforts.** Law enforcement efforts improved in 2001 but remain inadequate given the level of narcotics trafficking. In the Federation, arrests reportedly increased by more than 20 percent and police counternarcotics operations resulted in the seizure of more than 311 kilograms of marijuana (a 476 percent increase over 2000) and 525 grams of heroin (a 66 percent increase). From data through December 11, 2001, arrests in the RS were up six percent compared to their 2000 levels, and police counternarcotics operations had resulted in the seizure of approximately 253 kilograms of marijuana (a 98 percent increase), and 105 grams of heroin (a 72 percent decrease). Meanwhile, the newly established SBS had seized approximately 121 kilograms of marijuana since October 2000.

On May 26, the SBS seized an 82-kilograms shipment of marijuana, hidden in a roadside forest near Trebinje. In an operation on July 20, law enforcement authorities seized a 124-kilograms shipment of marijuana, reportedly destined for Croatia from Montenegro, near the village of Ostojici in Trnovo's municipality, and arrested three individuals. On September 13, the SBS stopped a Ford Escort with Montenegrin license plates with 16 kilograms of marijuana concealed in a specially prepared spare gas tank. The driver was reportedly paid U.S. \$250 to transport the drugs, valued at more than U.S. \$3,000.

These actions represent largely isolated efforts by local authorities rather than a coordinated national counternarcotics program. Despite these individual successes, narcotics- trafficking remains a crime of opportunity limited primarily by the interest of criminal elements in the higher profit margins offered by black marketeering and alien smuggling. Authorities have yet to focus systematically on major narcotics traffickers; they have yet to bring a major case to trial or bring adequate resources to bear.

**Corruption.** Both local and international community law enforcement agencies have substantiated links between the narcotics trade and the parallel institutions that undermine the rule of law in Bosnia. Bosnia has no laws specifically targeting narcotics-related public sector corruption and has not pursued charges against public officials on narcotics-related offenses. A long-standing parliamentary inquiry into the disappearance of over 20 kilograms of heroin from the safe of the war-time Federation Interior Minister has made no progress to date. The United States is coordinating closely with the peace Stabilization Force (SFOR), the United Nations Mission in Bosnia-Herzegovina (UNMIBH), and the Office of the High Representative (OHR) to combat the influence of organized crime, corrupt officials, and ethnic hard-liners, all of whom use the narcotics trade to generate revenue.

**Agreements and Treaties.** Bosnia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Bosnia has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

It is also developing bilateral law enforcement ties with neighboring states to combat narcotics trafficking. There is no bilateral agreement between Bosnia and the United States specifically pertaining to counternarcotics. Nonetheless, counternarcotics assistance does feature prominently in the United States' bilateral law enforcement assistance training program, which has provided both the Federation and the RS advice and assistance in a broad range of law enforcement issues including investigative techniques, border controls, and major case management. Both entities worked closely with the UNDCP under the terms of a 1997 agreement to establish five regional drug analysis laboratories in Mostar, Zenica, Tuzla, Trebinje, and Zvornik. These laboratories are currently capable of providing analysis of seized drugs, but do not have the capacity to examine blood toxicology of drug offense suspects. The UNDCP's program has been reduced to a staff of one and is currently aimed at training narcotics police in specialized investigative procedures.

**Drug Flow/Transit.** Major heroin and marijuana shipments are believed to travel through Bosnia by several well-established overland routes. Local officials believe that Western Europe—not the United States—is the proximate destination for this traffic. Judging by reported seizures, cocaine trafficking is minimal; the market for designer drugs, especially MDMA (ecstasy), in urban areas is growing rapidly. Law enforcement authorities posit that elements from each ethnic group and all major crime “families” are involved in the narcotics trade, often collaborating across ethnic lines. There is mounting evidence of links between, and conflict among, Bosnian criminal elements and organized crime concerns in Russia, Albania, the Federal Republic of Yugoslavia (FRY), Croatia, Austria, Germany, and Italy.

**Cultivation/Production.** Federation Interior Ministry officials believe that domestic cultivation is limited to small-scale marijuana crops grown in southern and western Bosnia. Although refinement and production are negligible, law enforcement officials indicate that Bosnia is increasingly becoming a temporary storage point for drug shipments en route from east to west. Though Bosnia does not have an infrastructure that could support large-scale illicit manufacturing, synthetic drug production in clandestine laboratories cannot be ruled out, given that production and possession of precursor chemicals is currently legal.

**Domestic Programs (Demand Reduction).** U.S.-sponsored community-oriented policing programs, which contain a strong counternarcotics component, have reached many more Bosnian children this year (2001). Although individual cantons have sponsored pilot community outreach programs and sought international assistance to introduce more proactive initiatives, there is no national drug awareness program. In August, the United Nations Trust Fund gave approximately \$12,000 to the Institute for the Treatment of Alcoholism and Drug Addiction—the only substance abuse treatment center in Bosnia—to help cover the purchase of computer and multi-media equipment.

### IV. U.S. Policy Initiatives and Programs

**U.S. Policy Aims.** U.S. policy objectives in Bosnia include reforming the criminal justice system, improving the rule of law, depoliticizing the police, improving local governance, strengthening the bank regulatory authorities, and introducing free-market economic initiatives. The United States will continue to work closely with Bosnian authorities and the international community to combat narcotics trafficking and money laundering.

**Bilateral Cooperation.** The United States remains committed to providing the counternarcotics training and support needed to foster independent law enforcement operations by Bosnian authorities.

**The Road Ahead.** With the International Police Task Force's (IPTF) shifting from training to more focused monitoring of local police forces, the international community will increasingly emphasize advanced specialized training in areas such as counternarcotics. Seeking voluntary contributions from donor governments, the UNDCP has put forward a proposal to help speed this effort. The USG in particular has focused its bilateral training programs on related subjects such as organized crime, public sector corruption, and border controls. The international community is working to increase local capacities and to encourage interagency cooperation by mentoring and advising the local law enforcement community. The recent formation of an inter-entity joint task force will facilitate the exchange of information between RS and Federation authorities and could pave the way for inter-entity law enforcement operations, a distant but essential goal.

# Bulgaria

## I. Summary

Bulgaria, strategically situated on Balkan routes between Turkey to the southeast and Romania and Serbia to the north and west, is vulnerable to illegal flows of drugs in either direction. Heroin moves through Bulgaria from Southwest Asia, while precursor chemicals used for making heroin move from the former Yugoslavia to Turkey and beyond. Marijuana and cocaine also pass through Bulgaria. Although Western Europe may be in more immediate danger, the DEA reports that organized crime networks linked to Bulgaria have a “direct U.S. impact nexus” with bases in Phoenix, Las Vegas, and Los Angeles. Nevertheless, there is no indication yet that they traffic narcotics to the United States in quantities sufficient to have a significant impact on the United States.

Despite the complications arising from the formation of a new administration after elections in June 2001, Bulgaria has made steady, if not spectacular, progress in improving its law enforcement capabilities and Customs Service. Bulgaria has taken pride in the large amounts of drugs (particularly heroin) seized by its law enforcement agencies. The Government of Bulgaria (GOB) has proven very cooperative, working with many U.S. agencies, and has reached out to neighboring states to work on the illegal flows of drugs and persons. Nevertheless, Bulgarian law enforcement agencies and the judiciary require further assistance to develop the capacity to fight serious crimes effectively.

## II. Status of Country

Bulgaria is a significant drug-transit country centrally located on three traditional Balkan routes between Turkey and, respectively, the Federal Republic of Yugoslavia, Romania, and the former Yugoslav Republic of Macedonia. Small quantities of opium poppies and cannabis are grown in Bulgaria. Clandestine labs produce amphetamines and diverted acetic anhydride is transported from Bulgaria to Turkey.

The new government, elected in June 2001, has emphasized its commitment to combat serious crime including corruption and drug trafficking. The new President, who took office in January 2002, has also indicated his support for these efforts. Bulgaria’s efforts to meet EU legal standards is a noteworthy accomplishment, but there were no major convictions for drug trafficking during 2001. Among the problems hampering Bulgaria’s counternarcotics efforts are poor inter-agency cooperation, weak witness and victim protection mechanisms, inadequate equipment to facilitate the search for drugs, and a lack of prosecutions. Moreover, as the Bulgarian Interior Minister has publicly stated: “Few of [Bulgaria’s] judges have any courage. Quite a few [are] corrupt.”

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The new Bulgarian government put in place an activist (albeit controversial) new head of the Customs Service whose mission has been to enhance that agency’s ability to seize contraband, decrease corruption within that agency, and increase the revenues for the GOB derived from the proper payment of duties. Customs announced in September 2001 that it was setting up a new directorate to combat drug trafficking and instituting properly vetted mobile teams to stop and search for drugs in any vehicle in the country. At the same time, the National Service for Combating Organized Crime (NSBOP) remains the principal investigative agency in this area. The NSBOP, based in Sofia, collects and analyzes information from all agencies, and has national jurisdiction. In December 1999, the NSBOP inaugurated the Narcotics Intelligence Center, which is an interagency body, and has continued to train its analysts with support from the EU and UN.



**Accomplishments.** According to the head of Bulgaria's Customs Service, a total of two metric tons of drugs was seized at Bulgarian border crossings from the beginning of 2001 to early November 2001. Of that overall amount, some 1.5 metric tons were heroin, according to the same source. By comparison, 2,541 kilograms of narcotics were seized in 2000, of which 1,785 kilograms were heroin. In addition, following a wave of killings among underworld figures, the Sofia police increased their interrogation of drug dealers and stepped up efforts to keep street dealers away from schools.

**Law Enforcement Efforts.** NSBOP has proved effective in blocking some percentage of the flow of drugs through Bulgaria. Unfortunately, as the Chief Secretary of the Bulgarian Interior Ministry has acknowledged, Bulgaria has not done as good a job in combating the distribution of narcotics within Bulgaria. Otherwise, as noted, seizures of drugs during 2001 appear to be on a par with 2000. In October 2001 there was a spike in seizures, which may have been due in part to the efforts of the Taliban to unload stocks of heroin following the onset of hostilities in Afghanistan.

**Corruption.** On November 27, 2001, the new government issued a 34-page anticorruption plan, which includes the establishment, along EU lines, of an anticorruption unit within the Ministry of Interior. The plan also calls for the development of an integrated information system, the improvement of fiscal controls within agencies, the implementation of measures to reduce tax evasion, and the review of major privatization deals, as well as the improvement of the privatization process. (One factor in the defeat of the previous governments was that many Bulgarians perceived it as suffering from endemic corruption.) The Minister for State Administration has said that foreign donors will provide 15 to 20 million leva (about U.S. \$7-\$10 million) for this initiative. The extent to which the plan is implemented remains to be seen. At the same time, the overly broad immunity granted to judges, prosecutors, and investigating magistrates by article 132 of the Bulgarian constitution is believed to abet corruption because those officials cannot be prosecuted for criminal acts. Efforts to rationalize the extent of such immunity have yet to come to fruition.

**Agreements and Treaties.** Bulgaria is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, the 1971 UN Convention on Psychotropic Substances, and the 1990 Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime. Bulgaria deposited its instruments of ratification for the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants on December 5, 2001. Bulgaria signed the Protocol against the Illicit Manufacturing of and Trafficking in Firearms on February 15, 2002.

The 1924 U.S.-Bulgaria Extradition Treaty and a 1934 supplementary treaty are in force and in use although there have been difficulties in implementation in narcotics cases. For example, a Bulgarian court in 2000 released an indicted narcotics trafficker whose provisional arrest and extradition the United States had requested. That case remains unresolved as Bulgaria is still looking for the individual. As a result of these difficulties, productive consultations were conducted in 2001 with Bulgaria regarding implementation of the treaty. Bulgaria is also party to the 1957 Council of Europe Convention on Extradition, the 1959 European Mutual Legal Assistance Treaty in 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. The Bulgarian Customs Service has memoranda of understanding on mutual assistance and cooperation with several European counterparts and is negotiating or updating others. The United States and Bulgaria signed a cooperation agreement in 2000. The GOB coordinates with INTERPOL and EUROPOL.

In addition to being a party to the international agreements and treaties noted above, the Government of Bulgaria works actively with the United States and EU member states to improve their law enforcement capabilities.

With respect to cooperation on narcotics, the National Service for Combating Organized Crime, which has established a center for analyzing narcotics trafficking information, maintains close contact with the

DEA. Bulgaria has been working closely with the Southeast European Cooperation Initiative (SECI), and it is expected to provide a narcotics officer to serve as a facilitator of the SECI regional task force. At the same time, as part of Bulgaria's efforts to join the EU, Bulgaria has willingly accepted close cooperation with UK experts, particularly in the customs field. Finally, Bulgaria is reaching out to neighboring countries, and not just in the context of SECI. In October 2001, a tripartite Cooperation Committee was established under the auspices of the foreign ministers of Bulgaria, Greece, and Turkey to deal with issues of common interest, including the illegal trafficking of drugs and persons across their borders.

**Cultivation/Production.** Law enforcement officials do not routinely calculate crop size or yields for illegal narcotics crops. When necessary, case-specific determinations are made based on the weight of dry leaves yielded from one square meter times the dimensions of the field. In general, yield calculations for illegal narcotics crops are difficult because cannabis, for example, can be grown among other, legal crops.

**Drug Flow/Transit.** Heroin from the Golden Crescent and Southwest Asian sources (e.g., Afghanistan) remains the main illegal drug transiting Bulgaria, though some marijuana and cocaine also transit Bulgaria. The northern Balkan route from Turkey through Bulgaria to Romania is the most frequently used overland route. Other routes go through the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia. In previous years, GOB officials noted the transiting of apparently increasing amounts of Brazilian cocaine. It is clear that precursor chemicals for the production of heroin pass from the former Yugoslavia through Bulgaria to Turkey.

**Domestic Programs (Demand Reduction).** Although Bulgaria's drug abuse problem is not growing as rapidly as some observers had anticipated, it is growing, in part because drug traffickers compensate local criminal organizations in kind. This supply, in turn, helps create a market as local criminals seek to unload the drugs they receive as payment. Experts estimate that in this country of slightly less than eight million, according to the latest census, there are up to 50,000 heroin users, fewer than ten percent of whom are in treatment. Cocaine is too expensive for all but the wealthy. Marijuana has traditionally been used in rural areas. MDMA (ecstasy) is an important and growing problem among university students. As in previous years, drug consumption is particularly noteworthy among marginalized Roma, among whom glue sniffing is a serious problem. There is also drug abuse in prisons and among traffickers.

Demand reduction has received government attention for several years. The Ministry of Education requires that schools nationwide teach 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 schoolteachers nationwide. There are also municipal demand reduction programs co-sponsored by the National Center for Addictions and the Institute of Public Health in six major cities and a number of smaller communities. Three universities provide professional training in drug prevention.

For drug treatment, there are 35 outpatient units and ten to 12 inpatient facilities nationwide. The National Center for Addictions has psychiatric units in 20 regional centers. Specialized professional training in drug treatment and demand reduction has been provided through programs sponsored by the UNDCP (funded by the U.S. Department of State and the Government of Italy), the EU's PHARE program, and the Council of Europe's Pompidou Group.

## IV. U.S. Policy Initiatives and Programs

The United States supports various programs, through the State Department, USAID, DOJ, DEA, and FBI to address various problems in the Bulgarian legal system. Among the issues these initiatives address are a lack of adequate equipment (e.g., in the Customs Service), the need for improved administration of justice at all levels (starting with investigations and continuing through better training of judges), and the inadequacy of cooperation among Bulgarian agencies. In late 2000, DOJ sent a regional legal advisor, who set up a permanent office in early 2001 to work with the GOB on law enforcement issues including drugs. Likewise, a Department of Justice/Central and East European Legal Initiative advisor was appointed to

consult with and advise Bulgarian prosecutors and investigators. USAID's assistance in the training of magistrates, which continues to focus on judges, also serves to reinforce the GOB's counternarcotics effort.

**Bilateral Cooperation.** Officials from the DEA, DOJ, FBI, and other agencies report positive and productive relations with their Bulgarian counterparts. Such excellent connections are significant not only with respect to training programs, such as courses offered at the International Law Enforcement Academy (ILEA) in Budapest or workshops, but also at the operational level. The challenge has been, as often as not, to encourage cooperation among Bulgarian institutions themselves.

**The Road Ahead.** Among the most important steps the United States would like to see the Government of Bulgaria take are: successful prosecution of organized crime figures (especially but not limited to drug traffickers); implementation of the anticorruption program; continued progress in making the Customs Service more effective; proper limits on magistrates' immunity; and the establishment of adequate witness protection mechanisms.

# Croatia

## I. Summary

In December 2001, Croatia's new counternarcotics law went into effect, creating an interagency government commission to fight drug abuse and a new office of drug control policy. The commission will be chaired by the Assistant Minister of Health and will be staffed by senior experts with backgrounds in enforcement and treatment. The government office will serve as a resource for the commission and for ministries dealing with drug-related issues. Both bodies are eager to discuss ways to benefit from other countries' experience.

Croatia is not a major producer of narcotics. However, narcotics smuggling, particularly heroin, through the "Balkan Route" to Western Europe remains a serious concern. The Balkan Route appears to be the source of narcotics for most of Croatia's moderate domestic consumption. Although Croatia is not a major transit country for illicit drugs entering the United States, it remains a country of concern to the United States. Croatia also has moved aggressively to increase law enforcement and border control cooperation with its neighbors, including the Federal Republic of Yugoslavia (FRY) and Bosnia and Herzegovina. Croatia's Interior and Health Ministries are the government bodies most directly involved in counternarcotics activities. Croatia's national narcotics strategy focuses on reducing the availability and demand for narcotics and curtailing Croatia's use as a narcotics transshipment point. Croatia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Croatia, with a geographic position along the most direct route to Europe from Asia and with limited resources for securing its extensive coastline and land borders, offers significant possibilities for smuggling narcotics and other contraband. The disruption in the Balkan Route caused by the breakup of Yugoslavia is ebbing. Police officials note a steady increase in smuggling from Bosnia, although some traffic continues to flow through alternative, northern routes developed during the 1991 to 1995 Balkan wars. Domestic narcotics abuse remains a priority area of attention. Drug abuse is centered in major urban areas. Along with Zagreb, the port city of Split, in part because of its poor economy, is developing into a center of drug abuse.

Croatia developed a national strategy for combating narcotics abuse in 1998 to address the serious issue of heroin addiction, the growth of which Croatian experts attributed to continuing effects of the war. Croatia's strategy includes measures to reduce supply and demand and also addresses treatment issues. The Interior Ministry, Justice Ministry, and Customs Directorate have primary responsibility for law enforcement issues, while the Ministry of Health has primary responsibility for the strategy to reduce and treat drug abuse. The Interior Ministry's counternarcotics division is responsible for coordinating the work of drug units in police departments throughout the country. The Interior Ministry maintains cooperative relationships with INTERPOL and an expanding number of neighboring states.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Croatia's parliament passed a new drug law in late November 2001 which entered into force in early December. The law identifies drug trafficking and abuse as priorities for the Croatian government and creates a senior-level interagency commission to oversee government efforts on the issue. The law also creates a permanently staffed government office of administrators and policy experts from enforcement and abuse prevention to support the work of the commission and the ministries involved in the fight against drugs. As the new drug law only entered into force in early December, the commission

has not yet met. The commission intends to seek out advice from the international community in establishing its counternarcotics office.

The parliament also recently passed new legislation creating a special office within the Office of the State Attorney (Prosecutor's office) to combat organized crime and corruption. The new legislation gives the office enhanced powers to detain suspects, freeze assets, and use plea bargaining to attack organized crime. The government is developing new legislation on witness protection and is planning a thorough overhaul of the penal code. Taken together, these changes should enhance the ability of Croatian law enforcement and prosecutors to combat international narcotics trafficking. In 2001 Croatia also adopted new legislation strengthening the enforcement capabilities of customs officials.

Croatia in 2001 stepped up its international law enforcement cooperation, for example, signing police and border cooperation agreements with Bosnia and Herzegovina, the FRY, and Hungary. Croatia also has intensified its cooperation with Western European states to improve the control and management of its still porous borders.

**Law Enforcement Efforts.** Unlike 2000, when 930 kilograms of cocaine were seized, there were no major seizures of narcotics in Croatia in 2001. During the first ten months of 2001, police made 6,604 seizures of narcotics and 6,180 persons had drug-related criminal charges filed against them. This represents an approximately ten percent increase over 2000. Seized drugs include: heroin, cocaine, hashish, marijuana, amphetamines, LSD, and MDMA (ecstasy), but judging from amounts seized, heroin and marijuana appear to remain the local drugs of choice. Croatian officials estimate that there are approximately 12,000 heroin addicts, consuming between 400 to 500 kilograms of "street-ready," "cut" heroin per annum.

**Corruption.** Narcotics-related corruption does not appear to be a serious problem in Croatia. A trial of a Croatian organized crime ring is underway. The Prosecutor's office is seeking to prosecute a number of businesspeople and politicians linked to the right-wing HDZ party for corruption and financial crimes during HDZ rule in the 1990s, but none of these cases is linked to narcotics.

**Agreements and Treaties.** In 2001 Croatia entered into a number of agreements with neighboring states, such as Bosnia and Herzegovina, the FRY, and Hungary, on law enforcement cooperation. It also intensified its cooperation with Italy and Slovenia on border control. In 2000 Croatia entered the Southeast Europe Cooperative Initiative's (SECI) agreement to prevent and combat transborder crime. Croatia plans to send its police and customs representative to the SECI crime center in Bucharest in early 2002 for on the job training in international police coordination. Croatia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Croatia has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

Extradition between Croatia and the United States is governed by the 1902 extradition treaty between the United States and Serbia, which applies to Croatia as a successor state to the FRY. Under the Croatian constitution, Croatian citizens may not be extradited, except to the Yugoslavia War Crimes Tribunal in The Hague.

**Cultivation/Production.** The Interior Ministry continues a program to identify marijuana cultivation. Small-scale production for domestic use is the only narcotics production within Croatia, according to enforcement officials.

**Domestic Programs (Demand Reduction).** The GOC continues to follow its 1998 national strategy on demand reduction. Croatia's new law on drugs will enable the Ministry of Health to support the efforts of non-governmental (primarily church-based) drug treatment programs. This reduction also reflects a slight decline in heroin addiction from its 1998-1999 peak. The Ministry of Health attributes this decline as much to the gradual easing of social upheaval caused by the war as to the efforts of the government.

The Ministry of Education requires drug education in primary and secondary schools. The state-run medical system offers treatment for addicts, but slots are insufficient to house all those needing treatment. The Ministry of Health operates in-patient detoxification programs as well as 14 regional out-patient methadone clinics. Because of reduced funding, the Health Ministry reports that the number of adults in state treatment programs has been reduced by ten percent. The government continues to run public awareness campaigns against drug use and continues to reject calls to decriminalize possession of marijuana for personal use..

### **IV. U.S. Policy Initiatives and Programs**

The United States is providing technical assistance to the Croatian Customs Directorate in support of its participation in a World Bank/Southeast Europe Cooperative Initiative (SECI) trade and transportation facilitation project that, inter alia, will assist the GOC in interdicting contraband shipments. The United States also is increasing its technical assistance to Croatia to assist the GOC in its efforts to improve the criminal justice system and attack organized crime and money laundering.

Croatia's democratic transition in 2000 opened the door to enhanced bilateral law enforcement cooperation. The USG has sent advisers to work with the Ministry of Interior, Ministry of Justice, and Prosecutor's Office on criminal justice reform. Issues addressed include money laundering, organized crime, and witness protection. In 2001 the USG also launched a program of technical assistance to the Interior Ministry with the goals of supporting GOC police reform efforts, modernizing police training, and strengthening internal affairs and general police policies and procedures. In addition, the United States is providing technical assistance to the Croatian Customs Directorate that, inter alia, will improve the capabilities of Croatian Customs to profile suspicious shipments, interdict drug shipments, and curb corruption.

# Cyprus

## I. Summary

Although Cypriots do not produce or consume significant amounts of narcotics, there continues to be increasing concern on the island about a perceived increase in drug use. The Government of Cyprus traditionally has had a low tolerance attitude toward any use of narcotics by Cypriots and continues to utilize a public affairs campaign to remind Cypriots that narcotics use carries heavy penalties. Drug traffickers appear to continue to use Cyprus as a transshipment point due to its strategic location and its relatively sophisticated business and communications infrastructure. In 2001, several persons transiting Cyprus were arrested for possessing significant quantities of narcotics.

Cyprus monitors the import and export of precursor chemicals for local markets. Cyprus's 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. Cyprus customs authorities are implementing a series of changes in their inspection procedures, including computerized profiling and expanded use of technical screening devices, such as portal monitors. A party to the 1988 UN Drug Convention, Cyprus strictly enforces tough counternarcotics laws, and its police and customs authorities maintain excellent relations with their counterparts in the U.S. and other governments.

## II. Status of the Country

Cyprus has a small, but growing population of soft-core drug users. Hashish is the most commonly used drug, followed by heroin, cocaine, and MDMA (ecstasy), all of which are available in major towns. The use of cannabis and ecstasy by young Cypriots and tourists continues to grow. The Government of Cyprus has traditionally adopted a low tolerance attitude toward any use of narcotics by Cypriots and uses a pro-active public relations strategy to remind Cypriots that narcotics use carries heavy penalties. The media reports extensively whenever narcotics arrests are made.

Cypriots themselves do not produce or consume significant quantities of drugs. The island's strategic location in the eastern Mediterranean may have made Cyprus a convenient stopover for narcotics traffickers in the past. 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.

Cypriot law carries a maximum prison term of one year for drug users under 25 years of age with no police record. Sentences for drug traffickers range from four years to life, depending on the substances involved and the offender's criminal record. Cypriot law allows the confiscation of drug-related assets and allows the freezing of profits or a special investigation of a suspect's financial records.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Following the September 11 terrorist attacks on the United States, the Central Bank issued a series of orders requiring banks to notify the Central Bank of accounts held by specified individuals or organizations associated with the financing of terrorist organizations and to freeze assets held in those accounts.

On September 25, 2001, the Central Bank sent a letter to the Cyprus Bar Association and the Institute of Certified Public Accountants calling upon the two associations to request their members to examine whether "they have ever been employed to carry out any work which may even vaguely be suspected to relate directly or indirectly with Bin Laden, the Al-Qaeda organization, or related persons." This request

could also produce some new information about transactions involving narcotics trafficking or the proceeds of narcotics trafficking by Al-Qaeda or associated groups.

**Cultivation/Production.** Cannabis is the only illicitly cultivated controlled substance in Cyprus, and it is grown only in small quantities for local consumption. The Cypriot authorities vigorously pursue this illegal cultivation.

**Drug Flow/Transit.** Although no longer considered a significant transit point for drugs, Cyprus has seen several cases of narcotics smuggling. During the past year, Cypriot law enforcement authorities developed information and cooperated with the DEA's office in Nicosia in an international investigation that resulted in the seizure of five tons of cocaine originating from Colombia, the dismantling of a Spanish criminal organization, and the seizure of a fishing vessel and off-load crew responsible for transporting the cocaine. Tourism to Cyprus is accompanied by the import of some narcotics, principally ecstasy and cannabis. Cyprus police believe their efforts in combating drug trafficking have mostly converted Cyprus from a drug transit point to a "broker point," in which dealers meet potential buyers and negotiate the purchase and shipment of future shipments. This change is likely also as a result of improved conditions in Lebanon. Lebanese containerized freight now moves directly to third countries without transiting Cyprus. Law enforcement authorities in Cyprus attempt to interdict drugs transiting Cyprus when information is made available. Cypriot law enforcement authorities robustly continue their policy of cooperating with international efforts to combat organizations responsible for the trafficking of narcotics. There is no significant sale of narcotics occurring in Cyprus.

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. Cyprus Customs no longer receives manifests of transit goods, as the seaports of Larnaca and Limassol have been declared "free ports." Goods entering Cypriot free ports can be legally re-exported using different Customs documents, as long as there is no change in the description of the goods transported.

### **Law Enforcement Efforts:**

- Cyprus aggressively pursues drug seizures, arrests, and prosecutions for drug violations.
- Cyprus focuses on major traffickers when the opportunities are available and readily supports the international community in its efforts.
- There have been no significant changes in the structure of the Cypriot law enforcement agencies.
- Cypriot police are generally effective in their law enforcement efforts; their techniques and capacity remain restricted by a shortage of financial resources.

The Republic of Cyprus authorities have no working relations with enforcement authorities in the Turkish-controlled northern sector of the island—the self-proclaimed "Turkish Republic of Northern Cyprus (TRNC)." The U.S. Embassy, including in particular the DEA office within the embassy, work with Turkish Cypriot authorities on international narcotics-related issues. Turkish Cypriots have their own law enforcement organization, responsible for the investigation of all narcotics-related matters. They have shown a willingness to pursue narcotics traffickers and to provide assistance when asked by foreign law enforcement authorities request it.

**Corruption.** There is no evidence that senior or other officials facilitate the production, processing, or shipment of drugs, or the laundering of the proceeds of illegal drug transactions.

**Agreements and Treaties.** Cyprus is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention on Narcotic Drugs, and the 1971 Convention on Psychotropic Substances. It is also a party to the 1995 European Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, the European Convention on the Transfer of Proceedings in Criminal Matters, and the European Convention on Mutual **Assistance**



**in Criminal Matters.** Cyprus has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

A new extradition treaty between the United States and Cyprus entered into force in September 1999. The United States and Cyprus signed a mutual legal assistance treaty in December 1999. The treaty awaits ratification by the House of Representatives of Cyprus.

**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, cocaine, and ecstasy, 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, with occasional participation from the DEA's office in Nicosia. Drug treatment is available.

### IV. U.S. Policy Initiatives and Programs

The deterrence of money laundering in Cyprus continues to be one of the highest priorities for U.S. policy toward Cyprus. The Ambassador and other members of the U.S. Embassy in Nicosia raised the issue repeatedly during 2001 with key Cyprus government officials.

**Bilateral Cooperation.** Bilateral cooperation between the USG and GOC in law enforcement efforts has been excellent, as has the GOC's bilateral cooperation with neighboring countries.

**The Road Ahead.** The USG receives close cooperation from the Office of the Attorney General, the Central Bank, the Cyprus Police, and the Customs Authority in drug enforcement and anti-money laundering efforts. In 2002, the USG will continue to work with the Government of Cyprus to heighten further its enforcement of its laws. The USG, through the U.S. Embassy in Nicosia, will make every effort to track the influence/effect of organized crime in Cyprus.

# Czech Republic

## I. Summary

The Czech Republic is both a transshipment and destination country for illegal narcotics. Limited amounts of pervatine (a Czech-produced methamphetamine) are produced in-country, some for export to neighboring states. Czech counternarcotics policy emphasizes both interdiction and criminal penalties against narcotics traffickers and, to a lesser extent, users. Czech cooperation with U.S., European, and international law enforcement efforts remains excellent. The Czech Republic is a party to the 1988 UN Drug Convention.

## II. Status of Country

Heroin from the south (mostly Turkey, moving north via the Balkans) transits the Czech Republic en route to Northern and Western Europe. Czech authorities attribute most of this activity to Kosovar-Albanian drug mafias, some of which maintain warehouse operations in the Czech Republic. Some heroin is also sold in the Czech Republic. Cocaine and marijuana also reach the Czech Republic, mostly in transit to Northern and Western Europe, although some is sold to Czech residents and tourists visiting Prague. MDMA (ecstasy) use has increased in recent years, and police are concerned that PMA (an ecstasy-like “club drug”) and GHB have begun to appear on the Czech market. Pervatine is produced in the Czech Republic, primarily for local consumption. Czech counternarcotics police believe Russian-speaking and Asian gangs now control about half of the pervatine market and that increasing amounts of the drug are now being exported to neighboring countries (e.g., Germany and Poland).

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In October 2000 the Czech government approved a “National Drug Strategy, 2001-2004,” which continues to guide national counternarcotics efforts. In addition, the government’s “Strategy for the Fight against Organized Crime” (also adopted in 2000) includes counternarcotics elements. Counternarcotics policy is also governed by an amended Drug Act that came into force in 1999 and included increased penalties for the production, trafficking, distribution, and possession of illegal drugs. In November 2001, the National Drug Commission (an interagency body that coordinates Czech drug policy) issued a report suggesting that the 1999 amendments to the Drug Act had failed to reduce drug use and production; the commission called for new legislation that would differentiate between illicit drugs based on their health risks and medical and social costs. The government has instructed the Ministries of Interior, Justice, and Health to implement the National Drug Commission’s proposals.

A new law on the protection of witnesses came into effect during 2001; the Czechs expect this law to encourage witnesses to testify in court, thus aiding the prosecution of drug cases. On January 1, 2002, an amended residence law came into effect, which should give the authorities more options for expelling illegal aliens (including drug dealers and producers). The government is also pursuing legislation that would allow the confiscation of illegally acquired property, which could prove useful in the prosecution of drug cases. Also on January 1, 2002, a new “Act on the Protection against Damage Caused by Tobacco Products, Alcohol, and other Drugs” came into effect; the law seeks both to prevent the use of these substances and to reduce the potential harm to drug, alcohol, and tobacco users.

**Accomplishments.** Both the counternarcotics police and customs officials made a number of significant seizures during 2001. Among them was the counternarcotics police’s “Operation Bandita,” which resulted in the arrest of a seven-person drug gang and the confiscation of 2,000 doses of pervatine, 800 doses of heroin, 1,600 doses of cocaine, and two complete pervatine production labs. In February, customs officials discovered 88 kilograms of heroin in a truck entering the Czech Republic from Slovakia, and by

mid-2001 customs officials had seized 215 kilograms of drugs, 67 kilograms more than during the whole of 2000.

**Law Enforcement Efforts.** The Czech National Anti-Drug Center (NADC, normally referred to simply as the counternarcotics police) became an autonomous police unit on January 1, 2001, responding directly to the Police President and the Minister of Interior. The NADC and a special Customs Service unit that focuses on narcotics and weapons smuggling have the lead in most major narcotics cases. Both are considered elite law enforcement units. Two other special police units, the anticorruption squad (SPOK) and the anti-organized crime unit (UOOZ), sometimes handle cases that involve narcotics (e.g., UOOZ might discover an organized crime gang engaged in both drug smuggling and trafficking in persons), but tend to turn primarily narcotics cases over to the counternarcotics police. All of these elite units take their counternarcotics responsibilities seriously and appear to cooperate effectively on drug cases.

**Corruption.** There were nine cases of drug-related police corruption in 2001; the street police officers involved in them were charged with abuse of power by a public official under section 158 of the Czech criminal code. None of the policemen involved were members of the elite counternarcotics unit, whose members pride themselves on their integrity.

**Agreements and Treaties.** The Czech Republic is a party to the 1988 UN Drug Convention and the World Customs Organization's Convention on Mutual Administrative Assistance for the Prevention, Investigation and Repression of Customs Offenses. The Czech Republic is also a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 Convention on Psychotropic Substances. Counternarcotics cooperation with the United States is excellent, both in agency-to-agency terms and within the framework of the U.S.-Czech Mutual Legal Assistance Treaty and the U.S.-Czech Customs Mutual Assistance Agreement. The Czechs also cooperate closely and effectively with their European partners; Germany, France, Switzerland, and the Nordic states station counternarcotics liaison officers at their Prague embassies and the UK has plans to do so in the near future. The Czech Republic signed the UN Convention against Transnational Organized Crime in December 2000.

**Cultivation/Production.** Marijuana production is negligible and is generally for personal use only. The Ministry of Agriculture monitors the growth and sale of opium poppies that are cultivated for the poppy seeds used in traditional Czech cooking; production remains consistent with legitimate domestic use. Pervatine is produced in small, well-equipped labs, with production largely aimed at domestic users. The counternarcotics police report, however, that Russian-speaking and Asian gangs now control about half of pervatine production, with exports to neighboring states (particularly Germany and Poland) on the rise. Police also believe that some pervatine producers may be shifting their operations to countries where the penalties are less stringent.

**Drug Flow/Transit.** Heroin, cocaine, and marijuana transit the Czech Republic, mainly heading from the south (Turkey and the Balkans) and east (Southwest Asia) toward Northern and Western Europe. Ecstasy and some other manufactured drugs move from the north (e.g., the Netherlands and Germany) southward and eastward. Drug seizures have been rising steadily over the past several years, but it is unclear how much of the rise represents an increase in smuggling and how much is the result of more aggressive, effective Czech enforcement efforts.

**Domestic Programs (Demand Reduction).** According to a study done by the National Drug Commission and presented to the Czech government in October 2001, there are approximately 37,500 problem drug users in the Czech Republic. The Ministries of Interior, Education, Defense, and Agriculture all sponsor counternarcotics education programs, and the Ministries of Health and Labor/Social Affairs run treatment and re-socialization programs that also include a counternarcotics message. The government has also just begun a new demand reduction project aimed at students that includes both drug prevention and anti-HIV/AIDS messages; the program also stresses the dangers posed by smoking and underage alcohol consumption (which are seen as precursors to drug use).

#### **IV. U.S. Policy Initiatives and Programs**

**U.S. Policy Initiatives.** U.S. goals and objectives in the Czech Republic include bolstering Czech law enforcement authorities' capabilities (including in the area of counternarcotics), maintaining our already effective links with Czech counternarcotics police and customs officials, supporting Czech anti-money laundering efforts, and promoting awareness of drug abuse.

**Bilateral Cooperation.** In recent years, the United States has provided a number of training opportunities for Czech police, customs officials, prosecutors, judges, and officials from other ministries (e.g., the Ministry of Health) involved in counternarcotics efforts. Moreover, the DEA maintains an extremely active and cooperative relationship with its Czech counterparts, and the U.S. Customs Service works closely and effectively with its Czech colleagues. The United States has also continued to help fund a teacher-training program aimed at reducing demand among students.

**The Road Ahead.** The United States will continue to cooperate closely with Czech officials. Czech NADC and customs officers and their DEA and U.S. Customs Service counterparts will remain in close contact both on specific cases and in broader terms. Subject to the availability of funds, the USG expects to continue training programs aimed at improving Czech law enforcement, judicial, and anticorruption capabilities; U.S. programs will seek to complement EU efforts.

# Denmark

## I. Summary

Denmark's strategic geographic location and status as one of Northern Europe's primary transportation points make it an attractive drug transit country. The Danes cooperate closely with their Scandinavian neighbors and the EU against 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. Danish authorities noted a continued increase in the use of MDMA ("ecstasy") and amphetamines in 2001, especially among younger Danes. 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. Evidence suggests that drugs from Russia, the Baltic countries, and Central Europe pass through Denmark en route to other EU states and the United States, although the amount flowing to the United States is relatively small. Seizures of ecstasy and amphetamines were significantly higher than in 2000, while hashish seizures were significantly lower.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Denmark continues to provide training, financing, and coordination assistance to the three Baltic countries (Estonia, Latvia, and Lithuania), principally to improve interdiction efforts. Denmark, Sweden, and Norway have each stationed a Nordic liaison officer in one of the Baltic countries through their Politi Told Nordic (PTN—Nordic Police Customs) agreement. Denmark's officer is stationed in Lithuania.

**Accomplishments.** Danish police continued their aggressive counternarcotics efforts in 2001. Because of public outcry over the release of arrested drug dealers in 1996, many of whom were foreigners, Danish law was amended to make it easier to place drug dealers behind bars and to expel foreign dealers who reside illegally in Denmark.

Danish law permits forfeiture and seizure of assets in drug-related criminal cases. Authorities strongly enforce existing asset seizure and forfeiture law and cooperate with foreign authorities in such cases. In 1998, U.S. authorities criticized Danish customs for lax enforcement of controls on exports of precursor chemicals to Latin America. Since then, the Danes have been very responsive and proactive on monitoring exports of precursor chemicals.

**Law Enforcement Efforts.** Seizures of amphetamines, ecstasy, and heroin increased in 2001, while seizures of hashish and cocaine decreased in 2001. Through mid-December 2001, Denmark confiscated 4.7 kilograms of cocaine (down from 18.6), 24.6 kilograms of heroin (up from 21.2-corrected figure), 224 kilograms of hashish and marijuana (down from 797-corrected figure), and 112,549 ecstasy tablets (up from 18,538).

In May, authorities seized 100,000 tablets of ecstasy found in luggage in transit to the United States at the Copenhagen Airport. In addition, Danish police and their Norwegian counterparts seized 65 kilograms of amphetamines and 125 kilograms of hashish in western Denmark. The seizure was part of an ongoing investigation into a multinational smuggling group, which was also in the process of bringing cocaine from South America into Scandinavia by ship.

Denmark continues to bolster the interdiction capabilities of the Baltic States. One of the sites of operations is the Baltic island of Bornholm, Denmark's easternmost territory, where the Customs Service and police, in cooperation with the Danish Navy, are continuing to work together on a project to interdict narcotics, other smuggled contraband, and illegal migrants.

**Corruption.** The United States government has no knowledge of any involvement by Danish government officials in drug production or sale, or in the laundering of their proceeds. Danish laws regarding public corruption in general are sufficiently stringent that there are no laws specifically targeting narcotics-related corruption.

**Agreements and Treaties.** Denmark complies with the requirements of all major international conventions and agreements regarding narcotics to which it is party. Denmark also contributes toward the development of common counternarcotics standards within the international organizations of which it is a member. Denmark ratified the 1988 UN Drug Convention in 1991 and signed the enabling legislation for the European Drugs Unit, now Europol, in 1997. Denmark is also a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. The United States and Denmark have entered into a customs mutual assistance agreement and an extradition treaty. The United States and Denmark have a 1928 arrangement for the exchange of information regarding drug trafficking. Denmark participates in the Dublin Group and EU meetings on related topics. Denmark signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants in December 2000.

**Cultivation/Production.** There is no significant illicit cultivation or production of illicit drugs in Denmark.

**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 United States. The ability of the Danish authorities to interdict this flow is slightly hampered by its membership in the EU and the resulting open border policies.

**Domestic Programs (Demand Reduction).** Denmark's Ministry of Health estimates that there are between 10,000 and 12,000 drug users in Denmark, which 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, outpatient care is available at hospitals, youth crisis centers, and special outpatient clinics. These programs are free of charge to Danish residents. In 1996, the government began funding programs that involve the treatment of addicts through a medically supervised drug abuse 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 is waning.

## IV. U.S. Policy Initiatives and Programs

**U.S. Goals.** The goals of U.S. counternarcotics/anticrime policy in Denmark are to serve as a liaison with the Danish authorities on drug-related issues and to assist with joint investigations.

**Bilateral Cooperation.** The United States experiences excellent cooperation with Denmark on drug-related issues.

**The Road Ahead.** In the coming year, the Danish authorities hope to increase their seizures of ecstasy tablets within Denmark and work closely with the Norwegian authorities in interdicting drugs. The Danes will also continue to build on the PTN agreement with their Nordic neighbors to increase information sharing and cooperation against narcotics trafficking. The U.S. government will continue to coordinate with Danish authorities and work to deepen regional cooperation against illicit drug trafficking.

# Estonia

## I. Summary

The abuse of and trafficking in illegal drugs continues to rise in Estonia. The arrest of Estonian drug traffickers in neighboring countries following seizures of record amounts of controlled substances demonstrates Estonia's involvement in the international narcotics trade. Of particular concern is the increasing availability of heroin. Although the Government of Estonia (GOE) has declared narcotics control to be a priority, the domestic demand for hard drugs and an upsurge of HIV virus-infected drug users in Tallinn (486 cases), Narva (372 cases), and in the north-east border area (422 cases) illustrate that the GOE is fighting an uphill battle in its counternarcotics efforts. In cooperation with NGOs and EU Phare (a multi-beneficiary counternarcotics program), Estonia continues to work with narcotics prevention programs aimed at young people. Estonia is a party to the 1988 UN Drug Convention.

## II. Status Of Country

No drug production sites were discovered in Estonia in 2001. There is no evidence of amphetamine or MDMA ("ecstasy") production in Estonia, although amphetamines that have been trafficked to Finland, may have been produced in Estonia, according to press accounts.

Thirteen cannabis farms (total of 400 square meters), the product of which was meant for the domestic market, were destroyed. Cannabis is widely distributed in the domestic market, along with heroin, amphetamine, methamphetamine, and ecstasy. For example, in 2000, tests of suspected drug users turned up positive results for cannabis in 38 percent of those tested, heroin in 34 percent, and amphetamines in 24 percent.

According to the Ministry of Internal Affairs, heroin, hashish, ecstasy, and cocaine are trafficked through Estonia. Heroin from Russia and hashish from Spain are trafficked mainly to the Scandinavian countries. Ecstasy from the Netherlands and Belgium is trafficked to the Scandinavian countries, and cocaine from Venezuela is trafficked mainly to the Scandinavian countries and to Russia.

According to the Ministry of Internal Affairs, transit of drugs generates approximately 70 percent of the total narcotics income in Estonia and local use generates 30 percent. Drug abuse continues to increase in Estonia. The number of drug-related crimes has nearly doubled over the past year. According to the press, drug addicts commit 46 percent of crimes in the Estonian capital of Tallinn.

During 2001, the total amount of narcotics seized by law-enforcement authorities ran into several hundred kilograms. Recently, as a result of a long-term surveillance effort started at the beginning of 2001, the Central Criminal Police, in cooperation with their Finnish counterparts, confiscated about 30 kilograms of amphetamines. Estonian law enforcement authorities are concerned not only about cross-border drug trafficking, which involves organized crime, but also about the growing domestic use of illicit drugs. According to the media, illicit drugs are easily acquired in Estonia's capital, Tallinn.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Estonia introduced amendments to the criminal code in March 2001 whereby punishments for drug-related crimes were made more severe, with incarceration terms generally longer. Amendments were also introduced to the administrative code increasing fines and opening up the possibility of administrative arrest for narcotics abusers.

The adoption of tougher penalties for narcotics trafficking and abuse in June 2001 was an important step in the fight against illicit drugs. The law will take effect as of March 2002. It will enable the authorities to fine offenders up to an amount equal to the value of their property.

**Accomplishments.** The Estonian Ministries Of Social Affairs and Interior signed a cooperation agreement with the Schleswig-Holstein region of Germany to improve cooperation against narcotics trafficking.

**Law Enforcement Efforts.** According to the GOE's 1997-2007 counternarcotics master plan (approved in 1997), the prevention of drug addiction and narcotics-related crime was one of Estonia's top priorities in 2001. Active efforts were to some extent successful, including improved police cooperation. The police, however, have not been able to slow down the distribution of illicit drugs, related crimes or the resultant growth in damage resulting from drug trafficking and abuse. Seventy-nine full-time counternarcotics officers—up from 57 in 2000—work in a separate department established in the Central Criminal Police Bureau in July 2001. There are five officials in the border guard of Estonia working specifically on narcotics interdiction.

During the first nine months of 2001, 1,789 drug-related crimes were registered, compared to 987 in the same period of 2000—almost double the number. In addition, during the same time period, 2,502 persons were charged with offenses against the administrative code (civil offenses), such as possession of drugs in small amounts, compared to 1559 in the same period of 2000. However, the GOE is quick to point out that the sharp rise is due not only to expanding drug abuse, but also to the increasing expertise of law enforcement agencies, especially of the Estonian Police.

**Corruption.** Corruption influences narcotics trafficking in Estonia, but less than in many other countries in the region. The Estonian government is striving to get at the root causes of corruption and is making steady progress as economic progress allows improved salaries for government enforcement officials.

**Agreements and Treaties.** The Estonian parliament ratified the UN 1988 Drug Convention in 2000, and Estonia is also a party to the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The United States also has an extradition treaty with Estonia. Estonia signed the UN Convention on Transnational Organized Crime on December 14, 2000.

**Domestic Programs (Demand Reduction).** A national health education program entitled "Prevention of HIV/AIDS and other STDs for year 2001" and subsequent years until 2006 forms the basis for drug-related education. The program is a compulsory part of the health education curriculum in Estonia's elementary and secondary schools. Estonian NGOs and youth organizations are actively participating in counternarcotics efforts with a series of counternarcotics advertising campaigns, educational exhibitions, lectures, and video seminars designed both for students and teachers. At the initiative of the Tallinn city government, Estonia has joined the international organization "PATH" (European youth without drugs, established 2000) as well as the international organization "European Cities Without Drugs." The education board of the city of Tallinn has two major projects: "Drug Prevention In The Schools Of Tallinn" and a Phare-funded project that is coordinated by the Estonian health center. It deals with anti-smoking activities and is analogous to the drug prevention project. Drug prevention is also mentioned in the Tallinn integration program for 2002-2005.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** Estonian-U.S. cooperation on the drug issue has been limited thus far. The U.S. Embassy Legal Attaché organized a seminar on organized crime for local officials, but no other training opportunities were offered.



**The Road Ahead.** The USG and GOE will continue to pursue cooperation to combat crime and drugs. The USG will seek to make resources available to facilitate the further development of the GOE's capacity to combat these threats.

# Finland

## I. Summary

Finland is not a significant narcotics producing or trafficking country. However, drug abuse has increased steadily over the past decade, and drug-related crimes increased four-and-a-half times from 1990 to 2000. The police attribute the increased drug use to the wider availability of narcotics in post-Cold War Europe, greater experimentation by Finnish youth, and a continuing gap between police resources and incidents of drug abuse. One alarming result of this increase was a significant rise in the number of drug-related deaths and HIV cases in the late 1990s, though both these trends slowed in 2001. 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 methamphetamine shipments arriving from the St. Petersburg area and the Baltic countries. Finland is a major donor to the UNDCP and is active in counternarcotics initiatives within the EU. Finland is a party to the 1988 UN Drug Convention.

## II. Status of Country

Narcotics production, trafficking, cultivation, and production/diversion of precursor chemicals are relatively modest in scope in Finland. Finnish law enforcement authorities effectively counter the threat of trafficking from abroad. Estonia, Russia, Spain, and the Netherlands are Finland's principal sources of illicit drugs. Finnish legislation makes the distribution, sale, and transport of narcotic substances illegal, and provides for extradition, law enforcement, transit cooperation, and precursor chemical control. Domestic arrangements for treatment and drug abuse education are exceptional. In 2001 new legislation allowed the police to fine violators for possession of small amounts of narcotics.

Finland has Europe's lowest cannabis-use rate, and cocaine use is quite rare, but amphetamines, methamphetamine, other synthetic drugs, and heroin are increasingly popular. MDMA ("ecstasy") use is up significantly. Police report a significant increase in drug-related crimes in 2001. Drug-related crimes were up one-third for the first half of 2001 compared to the same period last year. Authorities suggest a link between the increase in use of heroin and its increased purity and the sharp increase in the number of drug-related deaths beginning in the late 1990s. This trend declined this year, however. In August 2001, the Finnish press reported that the number of deaths related to heroin use was likely to decline from 66 in 2000 to about 50 this year, a reduction of about 25 percent. The percentage of new HIV cases related to drug use will likely also decline; as of late November, public health authorities noted 42 new cases in 2001 related to drug use, as opposed to 56 for all of 2000. The percentage of new HIV cases attributable to drug use exploded from 24 percent to 60 percent between 1998 and 1999; in 2001 it was estimated to be about 36 percent. Officials estimate that in 2001 the total number of new HIV cases in Finland would decline for the first time since 1996.

According to the Finnish police, there are approximately 23 organized crime groups operating in Finland, some of which have connections with organized crime groups in the Baltics and Russia. Many of these groups are facilitators and distributors of narcotics to the Finnish market. Police have expressed concern that the implementation of the EU's Schengen Agreement, which, as of March 2001, allows the free movement of people and cargo throughout the EU, might increasingly make Finland a transit country for drugs being trafficked by Russian organized crime groups.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In late 1998, the Finnish government released a comprehensive policy statement on drugs. This statement clearly articulated Finland's policy on drugs: complete prohibition. It reminded citizens that all narcotics infractions, from casual use to manufacturing and trafficking, are crimes

punishable under Finnish law. In September 2001, however, a new law took effect which implemented a system of fines rather than jail time for possession of small amounts of drugs. The police have expressed concern that this new law sends a bad message to Finns; law enforcement would prefer to send a strong deterrent message to the “demand” end.

**Accomplishments.** In late 2000, Parliament passed legislation that would increase the law enforcement community’s ability to pursue criminals with additional investigative tools, including undercover investigations, and authorization to make controlled “buys.” (Wiretapping was authorized in 1995.) The legislation went into effect in March 2001. Following the issuance of the government’s comprehensive policy statement on drugs in late 1998, in February 2000, the Finnish police completed a strategy for combating drugs for 2000-2003. The strategy places an increased emphasis on addressing street-level drug trafficking, and is being implemented with success.

**Law Enforcement Efforts.** Police report a significant increase in arrests and seizures of drugs in 2001. Beginning in the mid-1980s, law enforcement authorities focused limited police resources on major narcotics cases and on significant traffickers, somewhat to the detriment of street-level patrols, investigations, and prosecutions. Police suggest the result of this focus was to reduce 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 past decade 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. This includes action by uniformed police officers, as well as by plainclothes police officers.

**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 and Treaties.** Finland is party to the 1988 UN Drug Convention and its legislation is consistent with all the Convention’s goals. Finnish judicial authorities are empowered to seize the assets, real and financial, of criminals. Finland is also a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Finland has extradition treaties with many countries, and ratified the EU’s extradition treaty in 1999. Finland is a signatory to the UN Convention against Transnational Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. A 1976 bilateral extradition treaty is in force between the United States and Finland, though Finland will only extradite non-Finnish citizens to the United States. The United States has also concluded a customs mutual assistance agreement with Finland. 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 had bilateral narcotics agreements with Estonia since shortly after that country regained independence. Multilateral treaties, including membership in the UNDCP, constitute the basis of Finnish cooperation with the United States on counternarcotics initiatives.

Finland makes an impressive international effort to combat drug trafficking and other organized crime. The Finnish police maintain liaison officers in eight European cities (four in Russia, four elsewhere). In addition, Finland and the four other Nordic countries pool their resources and share information gathered by Nordic liaison officers stationed in 34 posts around the world. Finland participates multilaterally in regional efforts primarily through the EU and the Council of Baltic Sea States’ Organized Crime Task Force. In November, Finland hosted a meeting of senior police, customs, and border guard officials from the Baltic states to increase cooperation on drug smuggling and illegal immigration.

**Cultivation/Production.** During 2001, there were no seizures of indigenously cultivated opiates, no recorded diversions of precursor chemicals, and no detection of illicit amphetamines, cocaine, or LSD laboratories in Finland. 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.** Hashish is the drug most often seized by the Finnish police. Trafficking in highly purified methamphetamine from Estonia and Poland, ecstasy from Estonia, and amphetamines from Lithuania is a continuing concern for Finland. According to the police, these drugs are generally manufactured in the Baltic region and elsewhere in Europe. Finnish authorities affirm that their land border with Russia is well guarded—on both sides—to ensure that the border will not become a significant narcotics transit route. They express continuing concern, however, about the recent presence (since 1998) of high-quality, powerful heroin (“white heroin”) from the St. Petersburg area. In December 2001, the Finnish press reported that the police are concerned that highly concentrated “crocodile” heroin may come to Finland via Russia. Heroin at the potency level of this heroin kills inexperienced users unaware of or unused to it.

**Domestic Programs (Demand Reduction).** The Finnish government takes the approach that demand reduction is best achieved by implementing an effective Nordic welfare policy, which calls for early and effective intervention before drug use becomes a problem. Though the Nordic welfare model tends toward centralization, the federal government gives substantial autonomy to local governments to address demand reduction using federal money. Finnish schools are required to educate children about the dangers of drugs. Though drug treatment is made available as much as possible, the government acknowledges that it is not always available in certain parts of the country. Mandatory treatment for drug offenders is not commonly practiced. Replacement and maintenance treatment for heroin addicts using buprenorphine is relatively new in Finland.

## IV. U.S. Policy Initiatives

**U.S. Policy Initiatives.** The United States has pursued cooperation with Finland in a regional context, coordinating assistance with Finland and the other Nordics with assistance to the Baltic States. In January 2000, the DEA conducted a two-week regional drug enforcement seminar in Helsinki. The seminar brought together participants from Finland, Estonia, Latvia, and Lithuania.

**Bilateral Cooperation.** Cooperation between U.S. law enforcement agencies and their Finnish counterparts remains excellent.

**The Road Ahead.** The United States anticipates continued excellent cooperation with the Government of Finland in all areas of countering crime and narcotics trafficking.

# France

## I. Summary

France remains a transshipment point for drugs moving in Europe. With its shared borders with trafficking conduits such as Spain, Italy, and Belgium and its proximity to Northern Africa, France is a natural distribution point for drugs destined for North America from Europe and the Middle East. France's geographical location also makes it an easy destination for drugs aimed at its own market and nearby countries. Specifically, MDMA ("ecstasy") originating in the Netherlands and Belgium, heroin originating in Southwest Asia, cocaine originating in South America, and cannabis originating in Morocco all pass through France. There is no evidence that the illicit drugs that enter the United States from France are in an amount sufficient to have a significant effect on the United States.

A major concern of French officials is the continuing rise in the number of users of ecstasy and the large quantities of ecstasy that are entering France. The use of crack cocaine is almost negligible. The use of cannabis (primarily hashish) continues to rise, particularly among young people, making it the most widely used drug in France. Like other European countries, France is increasingly facing the problem of multiple drug addiction. France is a party to the 1988 UN Drug Convention.

## II. Status of Country

French government narcotics data for 2000, released in the spring of 2001, show that the number of seizures, users, and traffickers in ecstasy significantly increased compared to any other drug. Arrests for the traffic and resale of ecstasy increased by more than 114 percent. The 2000 data show that arrests for crack trafficking and resale remained roughly the same. In 2000, the amount of heroin seized increased by more than 118 percent and there was a small percentage decrease in the number of arrests for heroin use or resale. Cannabis and ecstasy continue to be the most widely abused drugs in France. The number of arrests for cannabis trafficking or resale increased by 12.45 percent.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** France's drug control agency, "La Mission Interministerielle de Lutte Contre la Drogue et la Toxicomanie (MILDT) (The Interministerial Mission for the Struggle Against Drugs and Drug Addiction), is the focal point for French national drug control policy. MILDT coordinates among the many ministries that have a role in establishing, implementing, and enforcing France's domestic drug control strategy. In June 1999 the Government of France (GOF) adopted a three-year plan of action (1999-2001) to integrate efforts against the abuse of tobacco, alcohol, and prescription drugs into France's counternarcotics programs. The plan emphasizes prevention, including health, welfare, and education programs, while reaffirming the role of law enforcement activities. The French continue to participate in regional cooperation programs initiated and sponsored by the EU.

**Accomplishments.** 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 2001, French authorities made notable seizures of narcotics. With a seizure of 2,297 kilograms of cannabis resin in September, customs officers in the eastern Pyrenees region report seizing more than 12 tons of cannabis resin in the area during the year. In August, customs officers seized over one ton of cannabis west of Paris in a truck originating in Spain. Paris airport customs officers made large seizures during the year: in August, over six kilograms of cocaine were seized from the suitcase of a Spanish national; in July, officers arrested a Guyanan national with 11,464 ecstasy tablets and 1.2 kilograms of cocaine; and in April,

officers seized more than 23 kilograms of cocaine in a three-day period, including nearly 8 kilograms of cocaine from the luggage of an Israeli national. In July, the Rouen (northwestern France) drug squad seized 110 kilograms of cannabis resin and 2.5 kilograms of heroin with a street value of over U.S. \$200,000. In southwestern France, 100,000 ecstasy tablets were seized during a routine road check in July. The tablets, hidden in the seat backs, had been sprinkled with pepper to prevent their detection by sniffer dogs. In the same region, 205,000 tablets were seized in late June. In May, customs officers seized 11 kilograms of heroin and more than 10,000 ecstasy tablets along the French-Spanish border. The drug squad of the Paris Criminal Investigation Department arrested seven alleged drug dealers and seized 42 kilograms of pure heroin at the beginning of May in the Paris suburbs. Investigators believed the drugs had come from Turkey.

Two separate drug trafficking rings in Toulon in southeastern France were dismantled at the end of March. A total of 15 people in the first ring were arrested (along with the seizure of 14 kilograms of hashish and 15 kilograms of cocaine) and ten people were arrested in the second ring. The leader of the second ring operated it from a prison in Marseilles. At the end of the same month, gendarmes arrested 22 people in a major sweep in southern France. The ring had imported tons of cannabis resin from Morocco via Spain for four years. In a two-week period at the end of March, customs officials seized over seven kilograms of cocaine at the Frejus tunnel linking France and Italy. In northern France, customs officials reported that in the first quarter of 2001 they had intercepted more ecstasy than in the year 2000, having seized over 62,000 tablets in a two-week period. The drug squad of the Marseilles authorities seized 8.5 kilograms of heroin and 1.5 kilograms of cocaine at the end of a four-month investigation that led to the arrest of 15 people. This was the largest seizure in the region in many years. The third largest seizure of heroin ever by French customs officials was made in February when 67.28 kilograms of heroin was found in a camper registered in Italy. Around 30 individuals were detained in February as part of a nationwide police sweep. The arrests led to the seizure of 11 kilograms of cocaine, cash, handguns, and false documents. The police believe the ring brought at least 700 kilograms of cocaine into France each year via the West Indies and Spain. Thirteen other suspected drug traffickers were arrested in eastern France at the same time.

In August, French and Dutch police broke up an extensive cocaine trafficking ring that was bringing the drug to Paris. The two suspected suppliers were arrested in Amsterdam, while members of the ring, including a courier, were arrested in the Paris region. The ring supplied three different African drug networks in Paris. In February, the police broke up a drug trafficking network and seized 620 kilograms of cannabis resin brought into France from Morocco aboard a bus. The investigators worked with their Spanish and Moroccan counterparts and arrested four suspects.

In 2000, heroin seizures (443 kilograms) increased by more than 118 percent over 1999, while cannabis seizures (53,579 kilograms) decreased by 20 percent, cocaine seizures (1,310 kilograms) decreased by 64 percent, LSD seizures (20,691 doses) increased by 107 percent, and ecstasy seizures (2,283,620 doses) increased by 22.75 percent.

**Corruption.** Narcotics-related corruption among French public officials is not a problem. The United States 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 a party to the 1988 UN Drug Convention. It is a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. The USG and the GOF have narcotics-related agreements, including a 1971 agreement on coordinating action against illegal trafficking. In 1996, the United States and France signed a new extradition treaty to replace the 1911 treaty and 1970 supplementary treaty currently still in effect. The treaty will enter into force on February 1, 2002. A mutual legal assistance treaty (MLAT) entered into force in 2001.

The United States has a customs mutual assistance agreement (CMAA) with France. French officials participate in international multilateral drug control efforts, including the UNDCP and the Dublin Group

of countries to coordinate drug assistance. In 2000, France was the 11th-largest donor to the UNDCP, giving 9.5 million francs (approximately U.S. \$1.36 million) with particular emphasis on judicial assistance, border controls in Southwest Asia, and money laundering. In December 2000, France signed the UN Convention Against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol Against the Smuggling of Migrants.

**Cultivation/Production.** French authorities believe the cultivation and production of illicit drugs is not a problem in France. France cultivates opium poppies under strict legal controls for medical use and produces amphetamines. It reports its production of both products to the International Narcotics Control Board (INCB) and cooperates with the DEA to monitor and control those products.

**Drug Flow/Transit.** France is an important transshipment point for illicit drugs to other European countries. Most of the heroin consumed in or transiting France originates in Southwest Asia (Afghanistan and Pakistan) and enters France via the Balkans after passing through Iran and Turkey. New routes for transporting heroin from Southwest Asia to Europe are developing through Central Asia and Russia. West African drug traffickers are also using France as a transshipment point for heroin and cocaine. These traffickers move heroin from both Southwest Asia and Southeast Asia (primarily Burma) to the United States through West Africa and France, with a back-haul of cocaine from South America to France through the United States and West Africa. Law enforcement officials believe these West African traffickers are stockpiling heroin and cocaine in Africa before shipping it to final destinations. France is also a transit point for Moroccan cannabis (hashish) destined for European markets, and for South American cocaine destined for the United States and Europe. There is no evidence that heroin or cocaine entering the United States from France is in an amount sufficient to have a significant effect on the United States.

Most of the South American cocaine entering France comes through Spain and Portugal. Most of the ecstasy in France or transiting France is produced in the Netherlands and Belgium. Ecstasy has been entering France in larger quantities during the last two years, raising concern among French enforcement officials of a new drug “fad” among French young people. The French have pressed both the Netherlands and Belgium to take appropriate action to cut back on ecstasy shipments originating there.

**Demand Reduction (Domestic Programs).** MILDT is responsible for coordinating France’s demand reduction programs. Drug education efforts target government officials, counselors, teachers, and medical personnel. The GOF is continuing its experimental methadone treatment program. Although there continues to be public debate concerning decriminalizing of cannabis, the GOF is opposed to any change in the 1970 drug law that criminalizes all use of illicit substances, including cannabis.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** U.S. and GOF counternarcotics law enforcement cooperation remains excellent, with a confirmed practice of information sharing. French surface assets participated in the international counternarcotics operation CARIBE VENTURE, which is held annually with the United States and Caribbean nations. In particular this year, following the pullback of most U.S. counternarcotics forces to perform homeland security duties following September 11, French naval assets stepped up their patrol activities in the eastern Caribbean Transit Zone.

**The Road Ahead.** The United States will continue its cooperation with France on all counternarcotics fronts, including multilateral efforts such as the Dublin Group and UNDCP.

# Georgia

## I. Summary

Georgia remains 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 heightened by the lack of control the government exercises over some of its borders and territory. Issues of corruption, low pay, and poor training continue to plague both general law enforcement and drug enforcement agencies. 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 also receiving assistance from the UN Drug Control Program (UNDCP).

## II. Status of Country

Georgia is a secondary transit route for heroin smuggled from Afghanistan to Europe. Morphine base, also from Afghanistan, being transported to Turkey, also transits Georgia. Additional trafficking to Georgia from Russia through South Ossetia and from Azerbaijan, for repackaging in the Pankisi area, is believed to feed the domestic Georgian drug market. Involvement in drug trafficking by Georgian nationals 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 remains liable to corruption.

## III. Country Actions Against Drugs in 2001

**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 2001.

**Law Enforcement Efforts.** Drug seizures and arrests rose by a modest amount from 2000 to 2001. Despite a growing awareness of the dangers of increased narcotics transiting Georgia, 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 both between and within these organizations. 1783 criminal drug trafficking cases were opened in 2001. This figure is 7 percent more than drug cases opened in the previous year. Fines imposed on drug abusers grew by 18 percent, suggesting that the number of illicit drug abusers in Georgia might be higher and growing faster than the government has acknowledged.

**Corruption.** Corruption is a significant problem within Georgia's law enforcement agencies. Georgia's anticorruption efforts continue to be hampered by the widespread tolerance of corruption within Georgian society. During 2001 the GoG formed a commission to reform its law enforcement agencies; however, no significant changes occurred during that year. Customs officials lack proper training and are easily corrupted.

**Agreements and Treaties.** The GOG has no counternarcotics agreements with the United States. Georgia has been a party to the 1988 UN Drug Convention since January 1998. Apart from a cooperation agreement between Georgia and Turkish Interior Ministries, there are no formal mechanisms to exchange counternarcotics information with foreign countries.

**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.



Low-grade marijuana, grown mainly in the foothills of the Caucasus Mountains, largely for domestic use, is cultivated in Georgia. There is no other known narcotics crop or synthetic drug production in Georgia. Although Georgia has the technical potential to produce precursor chemicals, it has no known capacity for presently producing significant quantities of them.

**Drug Flow/Transit.** The government has no reliable statistics on the volume of drugs transiting Georgia. However, the Ministry of Internal Affairs (MOIA) has reported that 95 percent of illegal drugs which enter Georgia are for non-Georgian consumption. Prices for drugs in Georgia are estimated at \$500-\$600 for 1 gram of heroine, and \$50-\$80 for 1 gram of opium.

**Demand Reduction.** According to Ministry of Internal Affairs estimates, there are about 39,500 drug addicts in Georgia. The drugs of choice are heroin and opium. The national treatment/drug abuse education program prepared by the MOIA's counternarcotics unit is comprehensive; however, program implementation has been limited by 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 granted approximately \$20 million in fiscal year 2001 to the Georgian law Enforcement Assistance and Border Security program. This program has assisted the GOG in developing the capabilities of its border guards and customs service.

**The Road Ahead.** Corruption in Georgian law enforcement agencies makes it unlikely that counternarcotics efforts will become effective in the near future. The best way to assist Georgia's law enforcement efforts is to focus financial and technical assistance from the U.S. and the international community on a few high-priority, achievable objectives. Any assistance to Georgian law enforcement, including counternarcotics, must include provisions for anticorruption reform, and must be closely monitored for progress.

# Germany

## I. Summary

Germany continues to be a consumer and transit country for narcotics, but it is not a major producing country. Cocaine, heroin, and MDMA (“ecstasy”) are the most widely consumed illicit narcotics, with the percentage of first-time ecstasy users rising 40 percent in the first half of 2001 in comparison to the same period in 2000. In contrast, cocaine consumption declined by 14 percent. Narcotics-related deaths declined by five percent. In contrast to previous years, the number of West African cocaine and heroin dealers active in Germany increased. German law enforcement officials had their largest success against synthetic drug manufacturers—2001 saw the destruction of the largest synthetic drug laboratory in Germany ever found. The United States and Germany share a high level of cooperation on interdiction, prevention programs, money laundering, precursor chemical diversion, and Dublin Group narcotics assistance matters. Drug abuse and associated problems continue to be treated as social and health, rather than criminal issues. Germany is party to the 1988 UN Drug Convention.

## II. Status of Country

Germany, with its major airports in Frankfurt and Duesseldorf and its seaports such as Hamburg, Bremen, and Rostock, is an ideal transit point for drug couriers from around the world. As in past years, much of the heroin for European markets passes through Germany, with a large portion of the heroin destined for the Netherlands. The main sources of cocaine transiting Germany are the Netherlands, Colombia, and Peru. In 2001, German law enforcement authorities seized cocaine destined for Spain, Italy, and the Netherlands. Turkish nationals continue to be the largest nationality involved in the illicit narcotics trade, although nationals of Yugoslavia, Sierra Leone, and Italy dominate heroin and cocaine trafficking. Germany remains a leading manufacturer of pharmaceuticals, making it a target for the diversion of precursor chemicals used in the production of illicit narcotics.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Germany’s main focus to drug use and problems associated with it shifted in 1998 from law enforcement to social and health concerns. Focus continues to be on prevention and raising awareness of drug addiction as a disease. Federally controlled rooms for consuming drugs continue to be a cornerstone of the Ministry of Health’s approach to dealing with drug abuse. On August 22, 2001, the Federal government, four state governments, and the cities of Bonn, Frankfurt, Hanover, Karlsruhe, Cologne, and Munich approved a model program designed to administer free heroin to addicts who have failed to respond to previous treatment efforts. The model program is set to start in February 2002.

**Accomplishments/Law Enforcement Efforts.** German law enforcement officials had numerous successes in seizing illicit narcotics, either destined for the German market or transiting Germany for other markets. In April 2001 police officials seized 161 kilograms heroin, a large portion of total heroin seizures in 2001. The states of Hesse and Baden Wuerttemberg saw the introduction of “white heroin,” a particularly pure form of heroin refined from Afghan opium in Kazakhstan and Kyrgyzstan. Authorities seized almost 52.7 kilograms of white heroin during the first half of the year. The majority of heroin seizures were shipments destined for France and Austria.

Over half of cocaine seizures occurred during transit. Spain, Italy, and the Netherlands were the primary destination countries for cocaine. During the first nine months of 2001, German law enforcement authorities discovered two drug laboratories. One of these laboratories was the largest ever discovered in Germany. In addition to professional laboratory equipment and a tablet-making machine, police discovered 75,000 ecstasy pills as well as psychotropic substances, which would have allowed the

manufacture of an additional 1.35 million pills. The second laboratory was used for the manufacture of methamphetamine. In March, police seized more than 200,000 ecstasy pills with a street value of about U.S. \$2 million, as well as U.S. \$30,000 in cash in conjunction with arrests of three individuals in Frankfurt/Oder. In May, the Federal Office of Criminal Investigations (BKA) announced that after two years of investigations, the public prosecutor had brought charges against three suspected drug dealers believed to have been involved in the smuggling of over two metric tons of cocaine. It is believed that the three belonged to a 15-member gang that transported at least ten drug loads in specially manufactured pieces of furniture from Ecuador and Colombia to Germany in 1998 and 1999. The Federal Border Police and customs officials seized drugs with an approximate black market value of U.S. \$750,000 at Duesseldorf Airport in August. The individuals arrested had attempted to smuggle almost 63,000 ecstasy pills to the United States.

Customs authorities seized a record 514 kilograms of cocaine in Hamburg in October. The cocaine had a street value of approximately U.S. \$23 million and was seized on a container vessel from Venezuela. Also in October, Berlin authorities busted a major drug ring after a large-scale raid. In this case, it is estimated that approximately U.S. \$15 million was transferred to the Netherlands between 1996 and 1999 to pay for an estimated five tons of cannabis products. In a cooperative effort, both German and Dutch officials conducted searches of 65 locations. According to police press releases, investigations started after a complaint in connection with the money laundering law, which requires the reporting of suspicious activity. In November after months of investigations, police seized 50 kilograms of heroin and arrested two suspects from an international smuggling ring. In December investigators seized 650,000 ecstasy pills with a black market value of U.S. \$3 million.

**Corruption.** Neither the government nor senior officials encourage or facilitate the production or distribution of illicit drugs or the laundering of the proceeds of illegal drug transactions. Corruption is not a factor in drug trafficking in Germany.

**Agreements and Treaties.** Germany is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Germany signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants in December 2000. A 1978 extradition treaty and supplement is in force between the United States and Germany. Negotiations for a mutual legal assistance treaty (MLAT) between the United States and Germany continue. There is a customs mutual legal assistance agreement in force between the United States and Germany. In addition, a bilateral agreement between the United States and Germany concerning the exchange of information relating to illicit drug trafficking entered into force in 1956, and a bilateral agreement between the United States and Germany relating to cooperation in the control of drug and narcotics abuses entered into force in 1978.

**Cultivation/Production.** Germany is not considered a major producer of illicit drugs. Police may occasionally discover marijuana plants cultivated for personal use, but there is no reported large-scale cultivation of any type of drug in Germany. The seizures of two laboratories for producing drugs in 2001 indicated that some synthetic production occurs in Germany.

**Drug Flow/Transit.** Germany's location in Europe makes it an ideal transit country for illicit narcotics. Turkey remains a major transit country for opium/heroin cultivated in Afghanistan and destined for European markets. The largest cocaine seizure in 2001 involved 74.8 kilograms of cocaine from Colombia via Panama and destined for the Czech Republic. In comparison to the first half of 2000, the same period in 2001 saw an increase in the numbers of ecstasy seizures and the amounts of ecstasy seized. Of the ecstasy seizures in the first half 2001, the BKA noted that the number of seizures destined for the United States had decreased. However, the BKA attributed this to changes in smuggling methods as opposed to a decrease in supply or demand.

**Domestic Programs (Demand Reduction).** The Federal Ministry of Health continues to be the lead agency in developing, coordinating, and implementing Germany's domestic drug abuse policy. Since the

1998 shift in responsibility for drug policy from the Ministry of Interior to the Ministry of Health, Germany's drug policy has treated drug use and its attendant problems primarily as social and health issues rather than criminal issues. Germany's domestic programs and demand reduction efforts focus on providing assistance in the form of counseling and therapy to addicts. The cornerstones of the treatment program are the consumption rooms where addicts can inject themselves, methadone treatment programs, and the heroin model program. The heroin model program is an attempt to reach out to Germany's 120,000 to 150,000 heroin addicts. Current programs such as methadone substitution reach only half of Germany's heroin addicts. The targets of the heroin model program are addicts for whom the program is a last resort and for whom controlled treatment with heroin is considered to be the only solution. The DEA works closely with local law enforcement officials in outreach/education programs, such as presentations at schools, in conducting demand reduction programs.

#### **IV. U.S. Policy Initiatives and Programs**

**Bilateral Cooperation.** German law enforcement agencies work closely and effectively with their U.S. counterparts in narcotics-related cases. German agencies routinely cooperate with their U.S. counterparts in joint investigations. German-U.S. cooperation has also yielded an excellent program (Operations Purple and Topaz) designed to attack diversion of the chemical precursor (potassium permanganate) for cocaine production. A DEA liaison officer is assigned to the BKA headquarters in Wiesbaden to facilitate cooperation and joint investigations.

**The Road Ahead.** The United States will continue its cooperation with Germany on all bilateral and international counternarcotics fronts, including the Dublin Group and the UNDCP. Completion of an MLAT will remain a priority for both the United States and Germany.

# Greece

## I. Summary

Greece is a “gateway” country in the transit of illicit drugs. Although Greece is not a major transit country for drugs traveling to the United States, it does serve as a major transit point for drugs flowing into Western Europe. Greek authorities report that drug abuse and addiction continue to climb in Greece as the age for first-time use drops. Greece also has the second highest annual rate of deaths from drug overdoses in Europe.

Drug trafficking remains a significant issue for Greece in its battle against organized crime. Investigations initiated by the DEA and its Hellenic counterparts suggest that a dramatic rise has occurred in the number and size of drug trafficking organizations operating in Greece. 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-money laundering organizations such as the Financial Action Task Force (FATF) and counternarcotics groups such as the Dublin Group of Countries Coordinating Counternarcotics Assistance. Greece is a party to the 1988 UN Drug Convention.

## II. Status of Country

With its extensive coastline border, numerous islands, and borders with other countries through which drugs are transported, Greece’s geography plays an important role in establishing Greece as a favored drug transshipment route to Western Europe. Greece is the only country in the Balkan region to have membership in the EU. Greece is also home to the world’s largest merchant marine fleet.

Greece is not a significant source country for illicit drug production, though shipment of anabolic steroids to the United States does occur on a small scale. (Use of anabolic steroids is legal in Greece. However, it is illegal to ship them to countries where they are a controlled substance.)

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Greece participates in the Southeast European Cooperative Initiative’s (SECI) anticrime initiative and in the work of the regional Anti-crime Center in Bucharest and its specialized task force on counternarcotics. Enhanced cooperation among SECI member states has the potential to disrupt and eliminate the ability of drug trafficking organizations to operate in the region.

**Accomplishments.** The Greek Parliament has proposed legislation that will ensure that a convicted drug offender serves the entire sentence imposed by a court in a criminal trial. If enacted, this new legislation will improve dramatically the Greek justice system, which previously allowed drug offenders to be released after serving little more than half their sentences.

**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 exceptionally close and professional; the GOG pursues U.S. requests for legal assistance aggressively.

Several notable drug seizures and arrests have occurred or been reported publicly since the 2000 report was published. In August 2000, Greek authorities arrested six drug traffickers in connection with “Operation Link”—a continuing international maritime drug smuggling investigation to capture Colombian drug bands—and seized over four tons of cocaine.

In December 2000, Greece and Turkey successfully worked together with the assistance of the DEA to seize 513 kilograms of heroin, the biggest seizure in European history.

In October 2001, Greek authorities seized 201 kilograms of cocaine, arrested five Greek nationals, and effectively dismantled a Greece-based maritime drug smuggling organization that recently attempted to smuggle large amounts of cocaine from South America to Europe.

In November 2001, Greek authorities dismantled a large operation trafficking MDMA (“ecstasy”), arrested three well-known traffickers, and seized over 9,000 ecstasy tablets.

The counternarcotics unit of the Greek police does not have its own budget. As a result, police equipment is often outdated and training is infrequent, but this situation has improved since 2000.

**Corruption.** Officers and representatives of Greece’s law enforcement agencies are generally under-trained, underpaid, under-appreciated, and overworked. Although this atmosphere has the potential to breed corruption, the level of corruption in the law enforcement agencies is relatively low with regard to narcotics and narcotics-related money laundering. As a matter of government policy, Greece does not encourage or facilitate illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances. Greece also does not encourage or facilitate the laundering of proceeds from illegal drug transactions. No known senior official of the GOG engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

**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 controlling essential and precursor chemicals. Greece is also a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention on Narcotic Drugs. An agreement between the GOG and the United States to exchange information on narcotics trafficking has been in force since 1928, and an extradition treaty has been in force since 1932. The United States and Greece ratified a mutual legal assistance treaty (MLAT) in 2000, which entered into force in November 2001 after the exchange of instruments of ratification. A Police Cooperation Memorandum, signed in September 2000, enhances operational police cooperation between the United States and Greece. The United States and Greece also have concluded a customs mutual assistance agreement (CMAA). Greece has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**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 and marijuana from Southwest Asia. Metric ton quantities of marijuana and smaller quantities of other drugs are smuggled across the borders from Albania, Bulgaria, and the Former Yugoslav Republic of Macedonia (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 United States, including Turkish-refined heroin that is traded for Latin American cocaine, but there is no evidence that narcotics entering the United States from Greece are in an amount sufficient to have a significant effect on the United States. 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 United States. Cocaine also transits through Greece to other parts of Europe.

**Domestic Programs (Demand Reduction).** Drug addiction continues to climb in Greece. The most commonly used substances are chemical solvents and marijuana. There is a surge in the use of ecstasy that reflects the growing European synthetic drug market. The GOG estimates that there are 20,000 addicts in Greece, with the addict population growing. OKANA is the state agency that coordinates all national counternarcotics 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. The organization is under-funded and understaffed, and the few existing clinics are insufficient to treat all of Greece's addict population. OKANA is currently treating 650 addicts in four methadone treatment centers, while 1,800 addicts remain on the wait list for admission.

#### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** The DEA has a close working relationship with representatives of the Greek Coast Guard, the Hellenic National Police, the Customs Office, the Financial Crimes Enforcement Unit (SDOE) of the Ministry of Finance, and INTERPOL. The economic section of the U.S. Embassy in Athens maintains regular contact with SDOE. 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. DEA officials are frequent speakers at local schools. The Ambassador also sponsors counternarcotics outreach programs in the community and area schools, which encourage children and young adults not to use drugs. 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 United States will encourage the GOG to continue to participate actively in international organizations such as the Dublin Group and OSCE. The DEA will continue to seek funding to offer training to Greek officials. The DEA will also continue to organize additional conferences, seminars, and workshops with the goal of building regional cooperation and coordination.

# Hungary

## I. Summary

Hungary is an important transit country for illegal narcotics smuggled from Southwest Asia to Western Europe. The country has changed in the past ten years from being just a transit country for drug traffickers into being a target country for final drug sales as well. According to the Hungarian National Police there are an estimated 200,000 drug users in Hungary, or two percent of the total population. After a dramatic increase in the 1990s, drug use is still increasing, but at a much slower pace. Domestic consumption of illegal narcotics, particularly heroin, marijuana and MDMA (ecstasy), continues to be a problem. According to a nationwide drug survey completed in November 2001, 40 percent of 18 to 35 year-olds living in Budapest had used drugs at some point during their lifetime. The Government of Hungary (GOH) passed strict counternarcotics legislation in late 1998 that went into effect in early 1999, introducing stiff penalties for using and/or selling narcotics. In December 2000 the GOH adopted a national drug strategy which has seen the implementation of large-scale community awareness and school-based drug prevention programs.

Drug traffickers may be punished with life imprisonment. Civil rights activists have been critical of the government, arguing that the new laws unfairly punish users. Hungary is a party to the 1988 UN Drug Convention.

## II. Status of Country

Hungary continued to be used as a major transit country for illegal narcotics smuggled from Southwest Asia and the Balkans to Western Europe. Hungary is not a major transit country for illicit narcotics that enter the United States. Traditional routes in the Balkans, which had been disrupted due to instability in the region, were once again used to smuggle narcotics in 2001. Through the first 11 months of 2001, overall drug seizures were down from last year's dramatic increase. There was, however, a sizable increase in marijuana seizures. A moderate decrease was observed in cocaine, MDMA (ecstasy), and LSD seizures. The total amount of narcotics seized through the end of November 2001 also decreased substantially from 2000 figures.

The Hungarian government believes that foreign groups, particularly crime groups from Albania, Turkey, and Nigeria, control transit and sale of narcotics in Hungary. Many of the criminals in these groups have lived in Hungary for many years. Ferihegy International Airport in Budapest is becoming an increasingly important stop for the transit of cocaine smuggled from South America to Europe. Synthetic drugs are transported into Hungary, usually by car, from the Netherlands and other Western European countries.

Hungarian officials continue to report the increasing seriousness of their domestic drug problem, particularly among teens and those in their twenties who have benefited from the country's strong economic performance. In response to this growing problem, the GOH adopted a national drug strategy on December 5, 2000. The strategy expanded prevention programs—modeled after a 1995 USG-financed pilot project to train teachers to identify and counsel students using drugs—and broaden law enforcement efforts begun in 1998 to attack the drug supply network.

Another key element of the national drug strategy was the creation of the National Drug Information Center (NDIC). In an effort to provide drug prevention/treatment support to regions outside of Budapest, the NDIC created a program offering support to regional forums. Through the NDIC, the GOH provides financial and technical support in the war against drugs to regions with populations of over 20,000. The main goal of the regional forums is for local government institutions, law enforcement agencies, schools, and NGOs to create drug strategies formulated for their specific regions. As of



December 2001, out of 64 regions with populations of over 20,000, 56 had established counternarcotics forums and 25 had developed local counternarcotics strategies.

In 2001, Hungary joined with its Balkan neighbors and West European partners in the South East Europe Cooperative Initiative (SECI) Organized Crime Center. The member nations and observer countries are pooling their limited resources to effectively and successfully confront regional drug trafficking and other criminal threats to the area. As an observer nation, the United States provides technical expertise and financial assistance to SECI's efforts.

### III. Country Actions Against Drugs in 2001

The debate over last year's anticrime legislation continues. Anticrime legislation enacted on March 1, 1999, was the first initiative of the government elected in May 1998. The legislation stiffened Hungary's criminal code, extended life imprisonment for drug trafficking, allowed confiscation of property, created new criminal provisions for production of chemical precursors, and increased 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 provisions, among the toughest in Europe, will unfairly punish casual users, while exempting addicts, but initial experience with the law shows no such effect. The Coordination Committee on Drug Affairs was established in 1998 to act as a forum to resolve political conflicts associated with the implementation of the national strategy. The committee coordinates the activities in the field of drug affairs and controls the implementation of the national drug strategy. The committee is chaired by the Minister of Youth and Sport and co-chaired by the Minister of Health. The committee holds sessions four times a year.

**Law Enforcement Efforts.** Hungarian and Austrian border authorities continue joint cross-border counternarcotics 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) and the USG's bilateral program. Eastern Hungary has seen initial steps toward joint border control efforts with Romanian and Ukrainian counterparts, while updated detection equipment provided by the EU at high-incident border posts will continue to help bring down incident rates in these areas. In January 2001, an Anti-Mafia Center was created to provide data-sharing and investigative assistance between Hungarian law enforcement bodies and intelligence agencies.

**Corruption.** In 1999, the GOH conducted an anticorruption campaign targeted primarily at civil servants. When he took office in late 1999, the new commander of the Border Guards unveiled plans for a new personnel system designed to assure that guards shift assignments and do not spend excessive time at a single border control post. These changes brought about improvements, but did not completely eliminate the problem of corruption. The USG, however, knows of no senior official of the government of Hungary who 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. The official policy of the GOH is to pursue and punish illicit drug traffickers and money launderers...

**Agreements and Treaties.** Hungary is party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. An extradition treaty and a mutual legal assistance treaty are in force between the United States and Hungary. A Memorandum of Understanding on Exchange of Organized Crime Information was signed in January 2000, paving the way for even closer cooperation between U.S. and Hungarian law enforcement agencies. Hungary has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** GOH authorities claim that marijuana (mostly cultivated in Western Hungary), ecstasy, and LSD are locally produced; all other illegal narcotics are imported into Hungary. Seventeen

marijuana plots were eradicated in 1998; four in 1999; one in 2000; and none through the end of November 2001.

**Domestic Programs (Demand Reduction).** Parliament has allotted 17 billion HUF (roughly U.S. \$56 million) for implementation of the national drug strategy over a three-year period. The strategy places a very high priority on prevention and demand reduction programs, and more than one-third of Hungary's junior high and high schools participated in drug prevention programs in 2001. To achieve the goals of the national drug strategy, the GOH has provided Hungarian society—particularly the target group (junior high and high school students)—with better, more complete information about the dangers of drug use. National drug treatment capabilities have been expanded and information campaigns targeted at adolescents emphasized the advantages of a healthy lifestyle in an effort to provide an attractive alternative to drug abuse.

#### **IV. U.S. Policy Initiatives and Programs**

The USG focuses its support for GOH counternarcotics efforts on training and cooperation through the ILEA and a bilateral program with the GOH. The DEA maintains a regional office in Vienna, Austria that is accredited to Hungary and works with local and national authorities.

**The Road Ahead.** The USG has been supportive of Hungarian legislative efforts to stiffen criminal penalties for drug offenses, and will continue to support the GOH through training at ILEA and through ad hoc initiatives.

# Iceland

## I. Summary

Few illegal drugs are produced in Iceland. The exceptions are small amounts of marijuana and amphetamines for domestic use. While Iceland is not considered to be a major transit point for drugs moving between North America and mainland Europe, several airline passengers transiting Iceland on their way to the United States were found to be carrying large amounts of illegal drugs in 2000 and 2001. In Iceland's largest seizure ever an Austrian passenger bound for New York was found in September 2001 with 67,485 MDMA ("ecstasy") tablets hidden under a false bottom of his suitcase. Surveys and treatment-center admissions indicate that the abuse of drugs in Iceland has increased significantly in recent years. An October 2001 survey of upper secondary school students (16 to 19-year-olds) shows that while alcohol use is down significantly from 1992, drug use has more than doubled since then. Iceland experienced another record-breaking year in drug seizures, especially of ecstasy tablets. Iceland is a party to the 1988 UN Drug Convention.

## 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 makes 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. Some 600 marijuana plants were uncovered at a single facility in November 2001, raising concerns that the amount of illicit production in the country might be more extensive than previously thought. In an incident that shocked Icelanders, who are not accustomed to drug-related violence, a man under suspicion of producing amphetamines shot and killed himself in April 2001 during a police search of his house.

The vast majority of illegal drugs found in Iceland originates from outside the country, mainly Denmark, the Netherlands, and Germany. The chief illicit drugs coming into Iceland are cannabis, amphetamines, cocaine, and ecstasy. Icelandic authorities believe that most illegal drugs are smuggled into the country by airline passengers, through the mail or inside commercial containers. The overwhelming majority of drug seizures occur at ports of entry, primarily at the Reykjavik seaport and the Keflavik International Airport. The only drug that is seized in appreciable quantities within the country is cannabis.

Iceland, along with the other Nordic countries, became a part of the Schengen free-travel area in March 2001. Some expressed concern that the elimination of passport controls on passengers arriving from other Schengen countries would hamper the fight against drug smuggling. However, customs controls remain in place (Iceland does not belong to the EU's Customs Union), so all persons entering the country are subject to the same checks on their persons and belongings as before.

Traditionally, Iceland's geographic isolation in the harsh environment of the North Atlantic has protected it against other types of smuggling. There is growing concern, however, that drug traffickers could be taking advantage of Iceland's sparse population (286,000) and numerous unguarded harbors and airstrips to bring in drugs by small private boats and planes.

An October 2001 survey of upper secondary school students (16 to 19-year-olds) showed that while alcohol abuse has dropped sharply since 1992, illegal drug use is roughly double what it was then. The percentage of those admitting to the use of hashish was up from seven to 12 percent; of cocaine, from two to five percent; of amphetamines, from two to four percent. The reported use of ecstasy was much lower than expected (only three percent), but this may be due to the fact that the survey did not capture the large number of 16 to 19-year-olds who are not in school (compulsory education in Iceland ends at 16). Iceland's main treatment center, Vogur, reported in 2001 that the number of patients 19 years of age

or younger had tripled in the past five years. While the majority of patients used to be between 30 and 40 years of age, the largest single group is now 18 to 21-year-olds. A 2001 study sponsored by the Ministry of Justice reported documented cases of teenage girls prostituting themselves to obtain drugs, which was surprising for this small, wealthy society.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The National Alcohol and Drug Abuse Prevention Council, which includes representatives 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), spearheaded a national effort against drug abuse in 2001. Established on January 1, 1999, to "eradicate the use of harmful drugs and to significantly reduce the consumption of alcohol," the Council disbursed more than U.S. \$400,000 during the year to 41 different groups and causes around the country in support of these objectives.

**Accomplishments.** This was another record year for drug seizures, especially of ecstasy tablets. Some 93,000 ecstasy tablets were seized during the first 11 months of the year. That was more than four times as many tablets seized in 2000, which itself was a record year. More than two-thirds of the ecstasy tablets were seized in one case in September, when an Austrian national bound for New York from Amsterdam was caught at Keflavik International Airport with 67,485 ecstasy tablets under a false bottom of his suitcase. He was one of eight foreign drug couriers caught at the airport during the year, many of whom were transiting Iceland on the way to the United States.

Some analysts believe that couriers are choosing to travel through Iceland to avoid the law enforcement scrutiny paid to direct flights from Amsterdam and Copenhagen. The fact that Iceland is increasingly used as a transit point for the movement of drugs to the United States was highlighted by two recent drug busts of passengers arriving from mainland Europe via Iceland at New York's JFK International Airport. In one case in 2000, two American women arriving from Amsterdam via Iceland were found with 130,000 ecstasy tablets in their possession. All together, an estimated 300,000 ecstasy tablets were seized in the United States in 2000 from passengers who arrived aboard flights that transited Iceland.

The second largest seizure of the year in Iceland involved an Iceland national attempting to smuggle 16,376 ecstasy tablets, 200 grams of cocaine, and 8 kilograms of hashish into the country. Police said that the large quantity was a worrying sign of how large the domestic market for illegal narcotics has become. The suspect was sentenced in December 2001 to an 11-year jail term, the longest drug offense sentence ever handed down in Iceland.

Iceland is taking the growing drug problem seriously and parliament passed a law in 2001, increasing the maximum sentence for drug-trafficking from ten to 12 years.

**Law Enforcement Efforts.** The record number of seizures in recent years is due in part to greater cooperation between the police and customs authorities. This cooperation was formalized in an agreement between the National Police Commissioner and the Director of Customs in March 1999. 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.

The increased seizures also reflected new guidelines issued by the National Police Commission in April 1999 to the country's 26 district chiefs of police. Among other things, the chiefs 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 is being done 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 counternarcotics 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 2001, six new drug investigator positions were created—five in Reykjavik and one in Hafnarfjordur, a major port town just outside of Reykjavik. All total, 18 new drug officer positions have been established since 1997. Similarly, the number of drug dogs has been increased in the past two years from two to seven. The ability of the police to investigate and stop drug trafficking has been significantly increased since 1999, when procedures were established for the use of “non-traditional” investigative methods, including paid informants, controlled deliveries, and undercover operations.

**Corruption.** Public corruption in illegal narcotics is considered rare and, to the degree it exists, does not involve higher-ranking officials of the government.

**Agreements and Treaties.** Iceland is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention on Narcotic Drugs. Iceland is also a party to the 1990 European Convention on Money Laundering, Search, Seizure and Confiscation of Criminal Proceeds. Iceland and the four other Nordic countries (Denmark, Finland, Norway, and Sweden) established a formal system of police and customs cooperation (PTN) in the early 1980’s, which includes the systematic gathering, processing and sharing of data on drug trafficking. Iceland assumed the chairmanship of the PTN in July 2001 for the first time. Iceland has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

Just after joining the Schengen free-travel area, Iceland (along with Norway) signed an agreement with Europol in June 2001 to increase cooperation with the EU in combating drug trafficking, among other things. In September 2000, Iceland joined the Council of Europe’s Pompidou Group, which brings together 33 European countries to monitor trends in the use and trafficking of drugs and to develop common strategies against them. In 2002, Iceland plans to participate in the EU’s new “Mecure” project, which will be focused specifically on combating the production and smuggling of ecstasy in Europe.

**Domestic Programs (Demand Reduction).** The National Alcohol and Drug Abuse Prevention Council’s main project was the five-year “Drug-Free Iceland” program, which was launched in 1997 as a cooperative effort among the national government, the City of Reykjavik, and the Association of European Cities Against Drugs. Among other things, the “Drug-Free Iceland” program informed parents about the reality of teenage drug and alcohol abuse and emphasized the importance of enforcing the legal curfew as a way to prevent such abuse. (The curfew restricts the hours minors under 16 are permitted outdoors on their own.) Although the program will come to an end in February 2002, many of its projects and initiatives will continue. A closing national conference will be held in March 2002 to evaluate the program and suggest next steps. In late April 2002, Iceland will host the annual conference of the Association of European Cities Against Drugs. The conference is expected to draw scores of representatives from the 30 European cities that participate in the association.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** As part of its preparations for participating in the Schengen free-travel area, Iceland sought law enforcement cooperation with the United States. This cooperation has included bringing U.S. experts to Iceland to discuss their counternarcotics experience, as well as sending Icelandic law enforcement officials to the United States to participate in international visitor programs and law enforcement training. Just prior to the implementation of Schengen, a DEA team came to Iceland to teach to more than 50 Icelandic police and customs officers the “Jetway” course on how to identify male fide travelers. There are regular consultations and exchanges of information between the DEA attaché in Copenhagen and Icelandic law enforcement officials.

Under a 1989 bilateral agreement, a Joint Information Coordination Center (JICC) was established in Iceland, which is designed to facilitate information exchange regarding small aircraft flying between the United States 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. Iceland stopped participating in the program in 1999, but wants to resume participation in early 2002.

**The Road Ahead.** The United States will continue to foster bilateral cooperation through its speaker, international visitor, and mobile training team programs. The U.S. Embassy in Reykjavik, in cooperation with the DEA and USG legal attachés in Copenhagen, will also work to make the JICC mechanism more useful for both countries and to act on Iceland's specific requests for cooperation and assistance.

# Ireland

## I. Summary

The Republic of Ireland does not play a significant role in international drug trafficking. A recent report indicates that drug use among Ireland's youth may be decreasing. Over the past four years, the report indicates, there has been a fall from 37 percent to 32 percent of 16-year-olds who have experimented with illegal substances. After extensive public consultations, the Irish government introduced its National Drug Strategy in 2001. Ireland is not a transshipment point for narcotics to the United States. Ireland is a party to the 1988 UN Drug Convention.

## II. Status of Country

Most of the drugs seized within the Republic of Ireland appear to be for internal use. While Ireland does not appear to be a transit point for drugs to the United States, it is believed to be a transit point for some narcotics trafficking to other parts of Europe including across the border with Northern Ireland. Ireland is not a significant source of illicit narcotics or precursor chemicals.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** After an extensive nationwide public consultation process, the Government of Ireland (GOI) launched its National Drug Strategy in May 2001. The National Drug Strategy sets out policy targets in the areas of drug supply, abuse education, prevention, treatment, and research. There are a series of 100 actions accompanied by performance indicators which government departments must carry out in both the short and long term. As part of the plan, regional drug task forces will be established throughout the country to develop policies which reflect the specific needs of that region. Another plan—Revitalizing Areas by Planning, Investment, and Development (RAPID)—will provide funds to the most deprived urban areas for programs in health, youth development, employment, counternarcotics measures, and policing.

**Accomplishments.** Besides developing and beginning implementation of the National Drug Strategy, law enforcement services in Ireland made several major drug seizures during 2001. In addition the GOI confiscated the assets of convicted drug dealers: 14.2 million Irish pounds (U.S. \$16.2 million) in the case of one dealer convicted of importing 20,000 kilograms of cannabis resin into Ireland over a two-year period.

**Law Enforcement Efforts.** The Garda Siochana (Irish national police force) continued their close cooperation with other national police forces throughout 2001. A joint operation with Dutch law enforcement authorities (much of the narcotics entering Ireland transits through Amsterdam) resulted in six seizures (three in Ireland and three in the Netherlands), the arrest of 20 people, the dismantling of a drug factory and lab, and the confiscation of 26.4 million Irish pounds (U.S. \$30.1 million) worth of narcotics. The UK and other EU countries have noted Ireland's success in the creation of the Criminal Assets Bureau, which has effectively targeted the assets of large drug dealers, and are seeking greater information about the Bureau's operations. New Garda liaison offices were established in France and the UK to assist in greater international cooperation.

The Garda continued to target both small time street-level suppliers as well as larger dealers. The operation focusing on street dealers targeted some of the poorest neighborhoods around the country and resulted in 400 arrests this year. In October and November 2001 the Garda made four large seizures of cannabis totaling 14.2 tons.

The Defense Forces of Ireland commissioned a new ship which will assist in their ability to interdict sea-borne smuggling. However a lack of intelligence on ship-based smuggling will hinder sea interdiction efforts by the defense forces.

**Corruption.** There were no verifiable instances of police or other official corruption related to drug activities in 2001.

**Agreements and Treaties.** The United States and Ireland signed a mutual legal assistance treaty (MLAT) in January 2001. The U.S.-Ireland MLAT will facilitate various forms of assistance in criminal matters between the U.S. and Irish governments, including serving documents, executing requests for searches and seizures, transferring persons in custody for testimony or other purposes, taking testimony of witnesses in both Ireland and the United States, providing documents and records, and assisting in forfeiture of assets. It will thus build on the excellent cooperation already taking place between the United States and Ireland in criminal law matters. An extradition treaty between Ireland and the United States is in force. The British-Irish Council (established under the Good Friday Agreement in April 1998) agreed to elements for a framework on future cooperation on the misuse of drugs between Ireland and the UK. A series of recommendations are being prepared for reducing both the demand for illegal drugs and the level of supply. The cooperation will also focus on information exchanges in areas of research, rehabilitation, and reintegration of drug abusers back into society. Ireland 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. Ireland has signed but not ratified the UN Convention against Transnational Organized Crime and the Protocol to Prevent, Suppress and Punish Trafficking in Persons.

**Cultivation/Production.** Only small amounts of cannabis are cultivated in Ireland. There is no evidence that synthetic drugs are being produced domestically.

**Drug Flow/Transit.** A number of drugs are smuggled into Ireland. These include cocaine, cannabis, amphetamines, ecstasy, and heroin. The cocaine comes primarily from Colombia and other countries in Latin America and the Caribbean. Cannabis and amphetamine shipments originate in the Netherlands and eastern European countries. The Garda has noticed that the THC content of the cannabis has been rising (from an average of 10 percent up to 40 percent). The high THC content cannabis may be coming from South Africa. Ecstasy mostly originates from the Netherlands, but there are more shipments coming from Poland. Heroin also arrives via the Netherlands and the UK. There is no evidence that Ireland is being used as a frequent transshipment point for narcotics being sent to the United States. Throughout 2001 the Garda continued to work on destroying narcotics networks within the country. There are still concerns, however, that drug trafficking organizations are moving to more complex distribution systems.

**Domestic Programs (Demand Reduction).** The National Drug Strategy provides target goals in areas of drug education, prevention, and treatment. One target is increasing the number of drug treatment centers to 6,000 by the end of 2001 with an additional 500 centers by the end of 2002. Local Drug Task Forces provide input for dealing with areas that are most affected by heroin addiction. According to treatment center statistics, there are 12,000 heroin addicts in Dublin. Besides community-wide programs aimed at impoverished areas (e.g. RAPID), the Probation and Welfare Service continues to develop programs for at-risk young people.

## IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** The United States has pursued greater legal and policy cooperation with the GOI, and has benefited from Irish cooperation with U.S. law enforcement agencies such as the DEA. The United States has encouraged greater participation in international counternarcotics organizations such as the Dublin Group of Countries Coordinating Narcotics Assistance.

**Bilateral Cooperation.** U.S. and Irish officials have continued their counternarcotics cooperation throughout 2001. The close cooperation has included joint operations and investigations as well as more routine information sharing.



**The Road Ahead.** In order to ensure that Ireland does not become a transit point for narcotics trafficking to the United States, it is important to maintain strong support for Ireland's counternarcotics efforts. In support of this goal, the United States will continue its cooperative efforts with Irish officials. The United States will also explore new opportunities for joint cooperation with the Garda and Police Service of Northern Ireland.

# Italy

## I. Summary

The Government of Italy (GOI) is firmly committed to the fight against drug trafficking. Foreign and domestic organized criminal elements in Italy continue to be involved in international drug trafficking and money laundering. The political turmoil in the former Yugoslavia and Albania has provided the perfect opportunity to establish relationships between Italian organized crime and ethnic Albanian criminal organizations. GOI cooperation with U.S. law enforcement agencies continues to be exemplary. Italy is a party to the 1988 UN Drug Convention, and is active in EU counternarcotics and anti-laundering fora.

## II. Status of Country

Italy is a narcotics transit and consumption country but not a drug producer. Priority drugs for law enforcement officials are heroin and cocaine. Possession of small amounts of illegal drugs is an administrative, not criminal, offense, but drug traffickers are subject to stringent penalties. Nonetheless, some MDMA (“ecstasy”) couriers have been arrested at U.S. ports of entry after having transited Italy. Although Italy produces some precursor chemicals, they are well controlled in accordance with international norms and not known to have been diverted.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Italy continues to make serious efforts to combat narcotics, and Prime Minister Berlusconi has made counternarcotics efforts a higher priority than ever before. In November 2001, he appointed Italy’s first-ever drug czar Pietro Soggiu. Soggiu, a former director general of the Financial Police (Guardia di Finanza) and of the Anti-Drug Services Directorate (DCSA), was a strong choice for the position. At the same time, a national department for counternarcotics policies was established. This department will coordinate supply-reduction efforts by law enforcement with demand-reduction programs by the ministries of health, education, and labor. Upon Italy’s request, U.S. officials supported this initiative by providing information on the structure and responsibilities of the U.S. Office of National Drug Control Policy. The national department will be fully operational in the first quarter of 2002. At the multilateral level, Italy contributes more than any other country to the Vienna-based UNDCP (U.S. \$11.6 million in 2001). Italy has been invited to observe the March 2002 International Drug Enforcement Conference (IDEC) that the DEA is sponsoring in Santa Cruz, Bolivia and will participate in the MDMA (“ecstasy”) working group.

In addition, Italian authorities obtained new weapons in the fight against drugs and terrorism with the passage of two laws in October. These laws facilitate the freezing of terrorist-related assets, make financing of terrorism and terrorist activity a criminal offense, and require financial institutions to report suspicious activity related to terrorist financing. Authorities are investigating media reports speculating that the Italian Mafia may have sold heroin bought from the Taliban.

**Accomplishments.** Following is a compilation of the key counternarcotics accomplishments of Italian law enforcement in the year 2001:

- January 2, Varese—Authorities seized 276 kilograms of cocaine at the Malpensa airport and arrested four West African and two Brazilian traffickers.
- February 13, Bari—Financial police seized 990 kilograms of marijuana and arrested the Albanian driver of a truck that arrived via ferry from Tirana.

- March 15, Rome—Italian police seized 430 kilograms of hashish and arrested an Italian national.
- May 2, Verona—Carabinieri seized 52,000 ecstasy tablets and arrested two Italians and one Dutch national.
- May 13, Milan—Italian police seized 50,000 ecstasy tablets destined for the United States and arrested four U.S. nationals.
- May 14, Bari—The DEA and Italian police initiated an investigation. The Anti-Mafia Directorate and Italian police arrested an Albanian national and seized 120 kilograms of marijuana and 14 kilograms of heroin.
- June 26, Naples area—Italian police and Carabinieri arrested 63 individuals on charges of importing cocaine and other narcotics.
- November 8, Trieste—Financial police seized 100 kilograms of heroin on board a Turkish truck.
- November 30, Ancona—Financial police seized 1,261 kilograms of marijuana and 336 kilograms of hashish on an Albanian truck arriving via ferry from Durres, Albania. Police arrested the Albanian driver.
- Fourth quarter, Arcore (Milan)—The DEA assisted the Carabinieri in an investigation involving Moroccan nationals in Spain who were supplying Italians in Milan, resulting in the seizure of 800 kilograms of hashish.

**Law Enforcement Efforts.** The fight against drugs is a major priority of each of the three police services coordinated by the DCSA: the Italian police, Carabinieri, and financial police. Working with the liaison offices of the United States and Western European countries, DCSA's 18 drug liaison officers in 17 countries focus on major traffickers and their organizations. This group often targets Italy's traditional organized criminal elements: the Mafia, Camorra, N'Drangheta, and Corona Sacra Unita. Other priority traffickers are Albanian and Russian organized criminals who traffic in heroin. Italian law enforcement officials use the same narcotics investigation techniques as other western countries: informants, extensive court-ordered wire-tapping, and controlled deliveries under certain circumstances. Adequate financial resources, money laundering laws, and asset forfeiture laws are available for these efforts. Seizures of heroin increased sharply from 986 kilograms in 2000 to 1,955 kilograms in 2001. Cocaine seizures declined from 2,308 kilograms to 1,698 kilograms, and ecstasy seizures also were down (500,106 tablets vs. 286,211 tablets). Marijuana seizures increased sharply from 29.2 MT in 2000 to 36.1 MT in 2001. Figures for 2000 are final figures for the whole year and differ from those in last year's report.

**Corruption.** As a matter of government policy, senior government officials of Italy do not encourage or facilitate the illicit distribution of narcotics or the laundering of proceeds from illegal drug transactions. No senior official of the government of Italy engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Corruption exists only among bit players and has not compromised investigations. When a corrupt law enforcement officer has been discovered, the authorities have taken appropriate action.

**Agreements and Treaties.** Italy is a party to the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Italy signed the UN Convention against Transnational Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons and the Protocol against the Smuggling of Migrants on December 12, 2000, and it signed the Protocol against the Illicit Manufacturing of and Trafficking in Firearms on November 14, 2001. Forty countries must sign and ratify the treaty before it comes into force. This new treaty will strengthen government efforts against all forms of serious crimes, including drug trafficking, money laundering, human trafficking, arms trafficking, international fraud, and

corruption. Italy and the United States have a mutual legal assistance treaty and an extradition treaty in force, as well as an arrangement for the exchange of information regarding the traffic in narcotic drugs that entered into force in 1928. Italy is a member of the Italian-American-Canadian-French working group, as well as the bilateral Italian-American working group on crime in the G-8 Senior Law Enforcement Experts Group (Lyon Group). As a member of the European community, Italy participates in the Dublin Group of Countries Coordinating Narcotics Assistance, the UNDCP, the Pompidou Group, Europol, the EU cabinet, and attendant committees and working groups.

**Cultivation/Production.** There is no known coca cultivation in Italy. However, opium poppy grows wild in the southern part of Italy, including Sicily. Italian poppy is not commercially viable due to the low alkaloid content. Seizures of marijuana plants in Italy doubled in 2001 because of improved law enforcement and increased production.

**Drug Flow/Transit.** Italy is a consumer country and a major transit point for heroin coming from the Middle East and Southwest Asia (Afghanistan) through the Balkans en route to Western and Central Europe and, to a lesser extent, the United States. There is no evidence that drugs that transit Italy en route to the United States have a significant effect on the United States. Albanian heroin traffickers work with members of the Italian Mafia families as transporters and suppliers of drugs. Cocaine, destined for Italian and other European consumption, originates with Colombian and (more recently) Mexican criminal groups.

During 2001, seizures of heroin and marijuana increased, while those of cocaine, hashish, and ecstasy decreased. Heroin and cocaine are smuggled into Italy via boat and overland via truck and privately owned vehicle. In smaller quantities, they are transported via (primarily Nigerian and Colombian) couriers or air express parcels. Much of the ecstasy moving in Italy, which is primarily imported from the Netherlands, is destined for the United States. Hashish is smuggled regularly into Italy on fishing and pleasure boats in multi-hundred kilogram quantities from Morocco and Lebanon.

**Domestic Programs (Demand Reduction).** The Italian Ministry of Health operates 552 public health offices. Of 500,000 drug addicts in Italy, 140,000 receive rehabilitation services at public and private centers.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** The United States and Italy continue to enjoy exemplary cooperation regarding counternarcotics 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 excellent.

**The Road Ahead.** The United States looks forward to continued close cooperation with Italy in the battle against narcotics drugs.

# Kazakhstan

## I. Summary

Kazakhstan authorities substantially increased the overall number of drug seizures they made in 2001. This increase occurred after procedures were changed to increase the amount of time Customs officials can inspect trains or trucks entering Kazakhstan and reflected increasing cooperation among agencies, especially the organized crime and counternarcotics units of the Interior Ministry (MVD). Border crossing controls along the southern border were tightened for security reasons after September 11, 2001. In October, a Presidential Commission reported a rise in the number of HIV-positive persons. This rise was primarily associated with drug use. The Commission also found that drug prices dropped as a result of an influx of drugs from Afghanistan immediately after September 11. Government agencies and NGOs created a joint committee to coordinate their demand reduction activities. Kazakhstan is a transit country for illicit narcotics and hosts some illicit narcotic production. Law enforcement agencies are attempting to develop improved enforcement efforts against narcotics, while continuing to maintain or increase their seizures on the southern borders. Kazakhstan is party to the 1988 UN Drug Convention.

## II. Status of Country

Kazakhstan is primarily a transit country for narcotics. However, ephedra (a precursor for many amphetamine-type stimulants, or “ATS”) and opium poppies are also cultivated illicitly in Kazakhstan. Kazakhstani enforcement officials found and destroyed three drug laboratories, the first time that drug laboratories have been reported operating in Kazakhstan. Also in 2001, a hectare of cannabis being produced commercially was also found and destroyed. Government and law enforcement officials increased seizures of drug shipments, especially those crossing the southern border. Unfortunately, despite the Government of Kazakhstan’s (GOK) stepped-up effort, a good deal of opium-based drugs still penetrate the border. After these drugs have crossed Kazakhstan, Russian officials make some additional seizures on their side of the border. The average size of the shipments entering Kazakhstan has decreased to a maximum of ten to 15 kilograms in response to increased monitoring and enforcement. The anti-terrorism security measures taken along Kazakhstan’s borders after September 11 also have enhanced law enforcement authorities’ efforts to counter narcotics.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In 2001, the Mazhilis (lower house of Parliament) approved amendments to the penal code increasing terms for narcotics offenses from five to 12 to seven to 15 years of imprisonment. The new code also provides for confiscation of property for possession of large quantities of drugs. The Customs Department and the MVD Police have both increased their standards for new recruits in an effort to increase professionalism.

Drug treatment efforts have become more focused after October, when a Presidential Commission published a report on HIV. The report showed that intravenous drug use, and consequent HIV infection, are both on the rise. Particularly worrisome was the relatively large increase in new users among the 15 to 19 age group. This increase was particularly disappointing to the authorities, as it occurred despite their work with teachers and schools over the past years to educate children about the dangers of drugs. After the release of the report, NGOs and government agencies traded charges that each was ineffective. All finally met in late October and formed the Independent Consulting Council, a joint working group made up of law enforcement, civilian government officials, and NGOs. The council will coordinate activities to reduce demand, and also propose more effective enforcement efforts against narcotics trafficking.

**Accomplishments.** Kazakhstan joined the World Customs Organization (WCO) in June 2001. This gave Kazakhstan increased access to technical assistance and training. Enforcement officials also made considerably more drug seizures and drug arrests this year than last.

**Law Enforcement Efforts.** As noted above, drug seizures increased sharply. Two factors are cited to explain the improvement: procedures were changed to allow Customs officials to take three hours vice one to search trains entering Kazakhstan and five hours vice one hour to inspect trucks; and beginning in early 2001, officers from the MVD, Border Guards, and Customs began to conduct joint searches of trains. During the first quarter of 2001, a tenfold increase in drug seizures was registered in comparison to 2000. Russian Customs makes additional seizures on the Russian side of the border.

Russian and Kazakhstan Customs and Migration officers combined forces on “Border 2001,” a project that seeks to fight the smuggling of persons and narcotics. This initiative got a further boost when Russia closed some border crossings after September 11. Authorities also began searching all vehicles crossing the southern border, primarily for national security reasons, but with the related effect of increasing seizures.

Probably as a result of the more effective enforcement efforts, marijuana street prices jumped to 11-14,000 tenge (U.S. \$74-U.S. \$94) per kilogram, an increase of 1,000 tenge per kilogram (U.S. \$6.66 or about eight percent). Heroin street prices jumped to 5-7,000 tenge (U.S. \$34-U.S. \$47) per kilogram, an increase of 2,000 tenge (U.S. \$13.33 or 33 percent). These price increases were registered despite an initial surge in opiates from Afghanistan after September 11. Throughout the year, Kazakhstani law enforcement agencies worked in conjunction with Russia, Germany, Kyrgyzstan, and Tajikistan on joint operations resulting in seizures and arrests of organized narcotics trafficking groups.

The MVD’s Counternarcotics Unit and Organized Crime Unit reported seizures through October 2001 of 15.5 kilograms of heroin, 7.5 kilograms of opium, and 6 tons of other opiate drugs and raw narcotics, equipment, and chemicals, as well as the destruction of three clandestine laboratories. The Kazakhstan Narcotics Bureau (KNB) reported that it had seized 700 kilograms of drugs from January to October—604.6 kilograms of marijuana, 67.2 kilograms of heroin, 26.7 kilograms of raw opium, and 4.2 kilograms of hashish, initiating 53 large-scale smuggling cases. Customs reported that it had confiscated a total of 2.5 metric tons of heroin, opium, and other drugs from January to October, initiating 500 criminal cases for possession.

**Corruption.** Corruption continues to be a serious problem in Kazakhstan although official information or statistics are not available. In 2001, some Customs and MVD officers were charged with selling drugs or being involved with drug selling groups. They were tried and sentenced to two to 7.5 years in prison. Also in 2001, the Prosecutor General’s Office investigated corruption in the Customs Department. Fifty officers were charged with corruption, with 12 charged with other criminal offenses. Customs was reorganized, making the regional Customs offices more responsible for preventing corruption and reviewing their staff periodically. New hires are no longer simply appointed, with no clear administrative procedures. Customs must now advertise and select new officers from among all applicants. Those officers found to be free of corruption and loyal are to be rewarded with promotions.

**Agreements and Treaties.** Kazakhstan is party to the 1988 UN Drug Convention, the 1972 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Kazakhstan has entered into formal agreements on counternarcotics with several countries, including the UK and Austria. Kazakhstan currently has mutual legal assistance treaties (MLATs) with the other CIS (Confederation of Independent States-Soviet Successor States), the People’s Republic of China, Mongolia, Germany, Italy, and the Czech Republic. Kazakhstan has signed the UN Convention against Transnational Organized Crime.

**Cultivation/Production.** Opium is still grown in relatively small quantities, more for personal use than for illicit sale. Traffickers continue to find opium and heroin smuggled from Afghanistan cheaper, purer, and more potent than locally produced opiates. Cannabis cultivation continues, although law enforcement

officials reportedly seized 1,330 kilograms of marijuana from four growers who were cultivating cannabis for profit. Available evidence suggests that cannabis smuggled through Kazakhstan does not reach the United States, but Russia claims that 80-90 percent of its marijuana is smuggled via Kazakhstan. Ephedra grows wild in mountainous areas of southern and western Kazakhstan. A shipment of ephedra was stolen in early 2001 en route to a pharmaceutical plant. Later in 2001, law enforcement seized 1.72 metric tons of ephedra plants from a storehouse, arresting the owner for attempting to sell 16.5 kilograms of ephedra-based drugs.

**Drug Flow/Transit.** Kazakhstan continues to be a significant route for the shipment of drugs to Russia, China, and Europe. The Bishkek-Moscow and the Dushanbe-Moscow trains continue to be favorites of drug traffickers from Southwest and East Asia. Synthetic drugs produced in Europe travel south from Russia to Kazakhstan's southern neighbors. Control on the southern borders has been tightened. Checks on all vehicles are now required, instead of the random searches used previously. However, traffickers have decreased shipment sizes to hide them more easily in luggage or allow them to be swallowed. The GOK's fight to reduce its role as a transit country is hindered by a lack of equipment and appropriate training.

**Domestic Programs (Demand Reduction).** A recent report by the Presidential Commission found that drug use and HIV/AIDS are increasing in Kazakhstan. The report further noted that there were 44,319 known drug users in Kazakhstan. The number of HIV-positive persons jumped fourfold in one year. The study found that the great majority of HIV-positive persons were infected through intravenous drug use. A large number of those testing positive were between 15-19 years of age. The number of women testing positive increased by 20 percent.

The Ministry of Justice's Committee for Fighting Narcotics and Drug Addiction organized a meeting in October with NGOs and government officials to discuss strategies for reducing drug demand. They agreed on formation of a committee to coordinate programs to reduce demand. Drug treatment centers have also initiated formal follow-up programs for those completing drug rehabilitation; treatment centers formerly did not offer follow-up monitoring to limit recidivism.

#### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** Bilateral counternarcotics cooperation has been good. The GOK continues to provide law enforcement-related information requested by the United States, including information regarding suspected drug traffickers. The USG has two advisors in Kazakhstan, who are working with Kazakhstani officials to improve administration of justice and customs enforcement. The United States also continues to conduct counternarcotics training programs to meet the needs of Kazakhstani law enforcement. Both training and advisory programs are funded through the Department of State's counternarcotics assistance funding.

**The Road Ahead.** Kazakhstani authorities are committed to reducing the country's role as a transit route for illicit narcotics. Practical realities, such as the country's 14,000 kilometer-long borders, will make this a difficult task. The USG will continue to work with the GOK, NGOs, and others interested in improving counternarcotics and demand reduction programs in Kazakhstan.

# Kyrgyz Republic

## I. Summary

The Kyrgyz Republic (Kyrgyzstan) produces almost no illicit narcotics, but it is an important transit avenue for drugs from Afghanistan to Russia and Western Europe. Over the course of the last year, much effort has been made by law enforcement entities to eradicate what little technology and ability to produce opium remains from the Soviet era. A potent strain of marijuana grows wild in the countryside, but is not harvested for export. The Government of Kyrgyzstan (GOKG) sees the flow of narcotics through the nation as a serious threat to its internal security and, as a matter of policy, makes the fight against illegal drugs a top priority. Law enforcement activity in terms of investigation and interdiction has increased substantially. As a practical matter, however, corruption problems within the ranks of law enforcement are a continuing concern. Unfortunately, drug abuse is rising among all ethnic groups and all geographic areas within the Kyrgyz Republic. The GOKG became a party to the 1988 UN Drug Convention in 1994.

## II. Status of Country

Internal chaos in neighboring Tajikistan has helped make the Kyrgyz Republic an attractive onward route for illegal narcotics because of their shared unprotected border. The southern provincial city of Osh continues to be a hub for the passing of illegal narcotics through the Kyrgyz Republic, and the number of arrests for drug trafficking offenses in Bishkek has increased appreciably over the course of the last two years. The effect of military operations on the flow of illegal narcotics from Afghanistan into Central Asia remained uncertain at the time this report was prepared.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Kyrgyz Republic views the fight against illegal narcotics as a top priority. In November 2001, President Akaev signaled a slight shift in his nation's drug control efforts in a speech to parliament. Changes seemed necessary because of increasing use and addiction rates within the Republic. The president announced that while continuing interdiction efforts by law enforcement entities, his administration also plans to focus more resources on the prevention of drug abuse among the population. As part of this new strategy, he outlined a public education campaign (described below in the demand reduction section).

**Law Enforcement Efforts.** In 2000 (latest data available), GOKG law enforcement seized in excess of 1,420 kilograms of raw opium and 216 kilograms of processed heroin. For comparison, in 1999 seizures totaled 150 and 24 kilograms of opium and heroin, respectively. Sharply increased seizures clearly demonstrate an increased effort on the government's part to effectively combat drug trafficking. In addition, the total number of drug cases investigated by all law enforcement bodies in 1999 was 3,459. In 2000 that figure was 3,939, representing an increase of 2.3 percent. Raw statistical arrest rates for 2000 versus 1999 break down as follows: manufacture, purchase, storage, and transportation—2.5 percent sale—16.5 percent cultivation—26.1 percent smuggling—40 percent. (Figures for 2001 were not available when this report was prepared.) Counternarcotics units of the Ministry of Internal Affairs (MVD) continue to be under-staffed and under-funded.

**Corruption.** Corruption is a widely acknowledged problem in the Kyrgyz Republic. As opposed to previous years, however, this problem has been publicly discussed by the highest levels of government in 2001, and many view honest, public acknowledgement that there is a problem a necessary prelude to progress on reducing corruption. Efforts are underway to find and prosecute those benefiting from drug corruption.



**Agreements and Treaties.** The Kyrgyz Republic 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 is also a party to the Central Asian Counter-Narcotics Protocol, a regional cooperation arrangement encouraged by the UN. The Kyrgyz Republic has extradition statutes; but the United States is unaware of any actual extraditions from the Kyrgyz Republic relating to drug charges. The GOKG has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** Opium poppies grow wild and are cultivated in insignificant amounts for illicit purposes in Kyrgyzstan. In addition, small parcels of land have been used for the cultivation of cannabis, the vast majority of which is consumed locally. Virtually no illicit narcotics are exported from Kyrgyzstan.

**Drug Flow/Transit.** Because of its border with Tajikistan, the Kyrgyz Republic has become an important transit route for opium and heroin from Afghanistan to Russian and western European markets.

**Demand Reduction.** As part of the President's new public counternarcotics abuse education initiative, the Kyrgyz government, with financial assistance from the UNDCP, has produced a number of public announcements broadcast over local television. The most comprehensive was a program entitled "Drugs. Truth. Lies." The program was broadcast over the local television network. In addition, the government widely publicized the slogan: "Into the 21 Century—Without Drugs" and sponsored a number of other public announcements, billboards, and efforts against drugs in other media. The privately funded association "Kyrgyzstan Without Drugs" was established in the fall of 2001, although its role in the counternarcotics effort is not yet clearly defined.

#### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** The State Committee On Drug Control (SCDC) attributes success in its efforts to extensive international cooperation. In particular, the SCDC cites the UNDCP and OSCE (Organization for Security and Cooperation in Europe) programs, as well as U.S. provided training, especially in the area of improving the Customs Service's ability to detect illegal narcotics shipments. The SCDC chairman recently attributed the six-fold increase of narcotics seizures over the course of 2000, due in part to international training assistance.

**The Road Ahead.** The United States will continue to offer appropriate narcotics-related training in the Kyrgyz Republic, and cooperate with enforcement authorities of the Republic on appropriate cases.

# Latvia

## I. Summary

Abuse and trafficking in illegal drugs continues to rise in Latvia. Heroin is of particular concern. In cooperation with NGOs and the EU, Latvia continues to work on a demand-reduction program specifically aimed at young people. The UNDCP maintains its regional office in Riga and chairs regular meetings of the mini-Dublin group, a group of countries working against narcotics abuse. In addition to the United States, the EU PHARE program provides assistance and training programs to the Government of Latvia (GOL). Latvia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Drug abuse continues to increase in Latvia. The number of drug-related crimes has nearly doubled over the past year. Heroin is now involved in 59 percent of all drug-related offenses, up from 15 percent in 1998. There has also been a significant increase in the number of drug addicts contracting HIV through intravenous drug use. In addition, the number of drug-related deaths continues to rise.

Most drug smuggling involves organized crime elements already involved in cigarette and alcohol smuggling. Evidence in the form of minor seizures seems to indicate that the flow of drugs to Scandinavia from Latvia, while small, is increasing. In a significant change from the past, some organized crime elements are beginning to specialize solely in drugs.

Illegal drugs, particularly heroin, tend to be relatively cheap in Latvia. According to law enforcement sources, the average price of a single dose of heroin is 2 Lats (approximately U.S. \$3.20), less than the going rate for a hamburger from McDonalds. With the average addict requiring six doses per day, a heroin habit is currently within the reach of Riga's affluent youth.

Within Latvia, drugs appear to be distributed through local networks. According to both law enforcement and press reporting, much of the Riga drug scene centers on a handful of popular nightclubs and, allegedly, a few open-air drug markets. Information on these drug markets is sketchy at best. That said, small-scale dealers are able to operate relatively freely due to apparent weaknesses in the law regarding small amounts of drugs. Typically, following arrest, small-time dealers are kept in detention for very short periods and when released, continue their activities. Traffickers also target youth as potential dealers, due to the laxity of juvenile law in Latvia.

## III. Country Actions Against Drugs in 2001

**Cultivation/Production.** Drug production is not a significant problem in Latvia, though potential does exist for manufacture or cultivation of certain drugs:

- **Amphetamines and MDMA ("Ecstasy").** To date, there is no evidence of either amphetamine or ecstasy production in Latvia. However, police point to a large chemical industry in Latvia during the Soviet era, as indicative of potential for production. Police have seized ecstasy produced at plants in both nearby Estonia and Lithuania.
- **Cannabis.** Cannabis remains the second most popular drug in Latvia following heroin. Cannabis is grown in Latvia, although estimates of its extent vary widely. Latvia's largest marijuana seizure occurred in August 2001, when police seized 70 kilograms of marijuana plants near Riga. These plants had an estimated street value of approximately U.S. \$90,000.

- **Opium Poppies.** The minor cultivation of opium poppies on small private plots is common. As a rule, however, the poppies are grown as an herb, rather than for their narcotic qualities. While some abuse of poppy stems does occur, low prices and the general availability of white heroin make it unprofitable to either grow or produce drugs in Latvia.

**Drug Flow/Transit.** Law enforcement authorities are more concerned about cross-border drug trafficking than drug production in Latvia. According to a variety of sources, including Nordic customs officials, Latvia is primarily a transit country. Most drugs move overland from Central Asia, specifically Afghanistan, through Russia and Belarus and from there through the Baltics and on to Scandinavia. The older route through the Balkans and Poland is now withering, due to the recent conflicts in Macedonia (FYROM) and Serbia. In addition, some sources claim that Riga Airport is often used as a transit airport for smuggling drugs.

Of all the drugs available in Latvia, heroin abuse has spread the fastest. White heroin in Latvia is very (80 percent to 90 percent) pure, such that a one-gram dose of Latvian heroin is the equivalent of ten-gram doses in Germany and Western Europe. Between 1997 and 1998, the price of heroin on the black market collapsed, falling from 35-50 Ls per one-gram dose (U.S. \$58-83) to 4-10 Ls (U.S. \$6.50-16.50) per dose. Several sources report that dealers and traffickers undertook a systematic effort to push poppy straw, a locally produced heroin substitute, out of the market. Most sources suspect some element of organized crime is involved in the heroin trade. Some reports indicate that organized crime elements intend to addict as many as possible with lower prices, then raise the price later. Others point to weak laws which return traffickers to the street too quickly. All sources agree that organized crime is more involved in the Latvian drug trade.

**Law Enforcement Efforts.** Interagency cooperation between Latvian law enforcement agencies tends to be best at the highest governmental levels, but weaker at the working level. This is particularly true between customs officials and the border guards. (Customs is under the Finance Ministry while the border guards operate under the authority of the Ministry of Interior.) Much of the problem stems from lack of financial, material, and human resources. In other cases, the limitations may be more organizational in nature. According to the Customs Attaché of the Swedish embassy in Riga, less than five percent of Latvia's 1,700 customs officials deal with border crossings. The same source also asserts that law-enforcement cooperation between the Baltic states is weak, and often depends on personal relationships.

Latvian border guards and customs officials have seen an increase in the number of drug seizures on the border. Whereas in the late 1990s only three to four larger seizures were made yearly, in 2000 and 2001 the number of large seizures more than doubled. In 2000, over ten major seizures were made, and in 2001, officials reported nine major seizures.

Border controls in Latvia for narcotics are in need of improvement. Border guards and customs officials mainly target taxable goods, such as alcohol and cigarettes. Even border stations that are relatively new sometimes lack designated examination stations for containers and passenger cars. The narcotics dogs program, however, stands out as one that has been particularly effective.

Smugglers are acutely aware of Latvia's limitations, and sometimes use tobacco products to test the effectiveness of border controls. Drugs are often transported in containers that are especially difficult to inspect, such as timber, cotton, coffee, or in the newest-model of certain foreign vehicles. In the latter case, border officials are often afraid that they will be held personally responsible should an error be made and property damaged. Smugglers also transport only small amounts (1 kilogram) of drugs at a time to avoid large losses in case of discovery. Upon entry into Latvia, these shipments are immediately divided into even smaller units for ease of concealment and retail sale.

**Precursor Chemical Control.** The Latvian law on precursor chemicals was adopted on May 9, 1996, and amended on July 1, 1998. Implementing regulations for licensing and registration of precursor operators are another important tool for law enforcement. Additionally, the EU PHARE multi-beneficiary drug

program is providing a series of seminars designed to raise the awareness of government officials, producers, and distributors on precursor chemical control issues. Controls are not foolproof. However, in August 2001, Latvia's Drug Enforcement Bureau (DEB) seized a large supply of chemical precursors near Riga.

**Agreements and Treaties.** Latvia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. A 1923 extradition treaty supplemented in 1934 remains in effect between Latvia and the United States. A bilateral mutual legal assistance treaty between the United States and Latvia entered into force in 1999. Latvia signed the UN Convention against Transnational Organized Crime on December 13, 2000 and ratified it on December 12, 2001.

**Corruption.** In the disruption and hard times following Latvia's separation from the former Soviet Union, corruption effected some aspects of law enforcement. Latvian authorities are very aware of the problem and are focused on doing everything they can to bring about improvements.

**Domestic Program (Demand Reduction).** As a first step toward combating the increasing problem of drug abuse in Latvia, in 2000, the Riga Narcotics Prevention Center produced the first in-depth study of drug availability. The Center also established Latvia's first 24-hour drug crisis hotline, as well as a web site, where people with drug problems can receive confidential advice and counseling.

As the highest risk group, teenagers have been targeted for drug demand reduction efforts. The Latvian government has organized a number of training programs for drug prevention and treatment professionals working with teens. In addition, drug awareness campaigns have been carried out in the schools. Latvia's city councils have also been working closely with higher levels of government to improve drug prevention efforts targeted on youth. In November 1999, the UNDCP, in cooperation with the Latvian Ministry of Education, launched a project entitled "Development Of Comprehensive Drug Abuse Prevention Material and Training For Public Schools." This project should complement Latvia's own efforts.

## IV. U.S. Policy Initiatives and Programs

**U.S. Policy and Bilateral Cooperation.** The United States experiences excellent cooperation with Latvia in combating drugs. The United States maintains programs in Latvia focusing on investigating and prosecuting drug offenses, corruption, and organized crime. Several Latvian enforcement personnel have attended U.S. training courses in Latvia and elsewhere in the region.

**The Road Ahead.** In the future, the United States will continue to pursue and deepen cooperation with Latvia. The United States will expand efforts to coordinate with the EU and other donors to ensure complementary and cooperative assistance and policies with the GOL.

# Lithuania

## I. Summary

Lithuania is a part of the major transit route for heroin from Asia to Western Europe. Synthetic narcotics are produced in Lithuania for local use and export. Heroin is the drug of choice in Lithuania. Its price has remained stable, but heroin is now also abused by intravenous injection. Narcotics sales continue to increase nearby and inside secondary schools, a response to the growing demand for drugs by Lithuanian urban youth. Lithuanian law enforcement authorities have reported an increase in the number of narcotics trafficking cases.

## II. Status of Country

In 2001, heroin continued to be the drug of choice in Lithuania. Its price remained stable at U.S. \$5 per dose, although the concentration of heroin in each dose was much lower than a year ago. The war against terrorism in Afghanistan somewhat reduced supply of heroin but did not affect its price. Liquid heroin for intravenous injections, amphetamines, and new psychotropic substances are increasingly popular. Poppy straw is popular in the countryside. International contacts of organized crime groups engaged in the drug business have expanded in Lithuania. In early 2001, the police estimated that Lithuanian narcotics market was worth nearly U.S. \$75 million.

## III. Country Actions Against Drugs In 2001

**Policy Initiatives.** In January 2001, the Government of Lithuania (GOL) approved an amended drug prevention program for 2001-2003 with an annual budget of U.S. \$1.6 million. The program is to be coordinated by the Health Ministry. This new program is directed toward improving overall counternarcotics policy outreach, especially among young people, increasing the control over narcotics contraband and traffic, increasing the control of precursors and psychotropic substance use, increasing preventive education and cure of narcotic addicts, and strengthening rehabilitation and social integration of reformed narcotic addicts. According to the critics, the plan's numerous preventive actions were not part of a coherent strategy while little actual work was carried out on the street. Experts note rapidly rising public awareness of the hazards caused by narcotics. Government agencies and NGOs initiated a series of public awareness campaigns throughout 2001. Early next year, the Health Ministry plans to establish the National Narcotics Information Center, co-funded by the EU, which will collect, analyze, and evaluate information as a basis for more effective counternarcotics activities.

**Accomplishments.** In June 2000, amendments to the criminal code were passed to increase the penalty for production and distribution of prohibited narcotics. The Interior Ministry also submitted to the Parliament amendments to the code that would allow for increasing the penalties for distribution of narcotics among young persons.

**Law Enforcement Efforts.** During the first nine months of 2001, Lithuanian law enforcement authorities reported a 15.3 percent increase in narcotics-related crimes. The number of people detained for narcotics-related crimes increased by 28 percent, most of whom were young, unemployed drug addicts. The Lithuanian counternarcotics enforcement system lacks funding. However, EU countries and the U.S. sponsored numerous training exercises for Lithuanian law enforcement personnel. While the police shut down six well-equipped laboratories producing amphetamines, ecstasy, and precursor chemicals in 2000, no laboratories were detected in 2001. Customs officers reported 12 seizures of narcotics, the largest of which was a seizure of 9.4 kilograms of cocaine. In 2002, the Customs Department plans to expand its Criminal Division by increasing staff from 5 to 20, and establishing seven stations at the borders to support officers working with drug-detecting dogs.

**Corruption.** The U.S. is unaware of any narcotics-related corruption in Lithuania.

**Cultivation/Production.** Until 1998, most popular narcotics were cheap “local” narcotic substances, such as intravenous opium extract produced from locally grown poppies or “Ephedrone” (or Pervitine) made from medications containing ephedrine. With a rise in the standard of living, new types of drugs, primarily synthetic, appeared on the market. In 1999, the use of heroin doubled, and it further increased in 2000 and 2001. It is believed that several underground laboratories in Lithuania produce synthetic narcotics and precursor chemicals for the domestic market and export.

**Drug Flow/Transit.** Poppy straw is transported through Lithuania to the Russian enclave of Kaliningrad and Latvia. Marijuana and hashish arrive in Lithuania from the east and the west, by land and sea. Afghan heroin arrives in Lithuania via Russia, some of which is further transported to Russia’s Kaliningrad enclave district and to Scandinavian countries. Cocaine is transported to Lithuania from Central and South America via Germany and the Netherlands. Amphetamines arrive in Lithuania from Poland and the Netherlands, and are increasingly being produced locally as well. Lithuanian organized crime groups participate in trafficking narcotics to Western Europe from Lithuania and Central and South America. During the first nine months of 2001, 36 Lithuanian citizens were apprehended while trafficking amphetamines, cocaine, heroin, marijuana, and pills into Germany, Scandinavian countries, the United Kingdom, and Poland. In 2000, 62 Lithuanian nationals were detained abroad for narcotics violations.

In an effort to expand the market, narcotics traders increasingly targeted secondary schools. The use of marijuana, ecstasy, LSD, and amphetamines unfortunately is considered an integral part of the alternative youth sub-culture, and gradually leads to the use of stronger narcotics. Increasing proportions of young people try heroin first. The number of 15 and 16-year-old pupils who try drugs is growing rapidly, and police in Vilnius are regularly dealing with addicted children in the 10- to 13-year age group. As a result, Lithuania is rapidly catching up to western countries in overall drug use, production and distribution.

Domestic Programs (Demand Reduction). Narcotics addicts have had the right to confidential health care and social services since 1997. Access to anonymous consultation and needle/syringe exchange has slowed the speed of HIV infections in Lithuania. In 2001, three new national centers for reduction of drug dependence have been opened (now totaling five), as have several daycare centers and numerous health facilities for narcotic addicts at polyclinics in major cities. The government also supported counternarcotics projects carried out by NGOs. The GOL established 166 “Social Tutor” positions in schools, but was forced to abandon its plans to conduct compulsory drug tests for school children. In July 2001, the police established a toll-free, confidential phone line to collect information about the distribution of narcotics.

Methadone treatment programs have operated in major cities since 1995. Over 2001, some 4,000 people had access to those and other treatment programs. However, the efficiency of treatment, rehabilitation, and harm reduction programs has not been adequately researched. Little was done to reduce narcotics demand in correctional institutions, where some 70 percent of inmates reportedly use narcotics, and the problem simply continued among those leaving correctional institutions. The Defense Ministry has launched a program to reduce drug use among conscripts, some nine percent of whom have used drugs (mostly amphetamines). Law enforcement has contributed to the effort by staging annual operations to educate the population.

There are more than 3,500 officially registered narcotic addicts in Lithuania, more than 60 percent of whom are 20 to 34 years old. However, according to police estimates, over 30,000 out of 3.5 million of Lithuania’s inhabitants consume narcotics, and about half of them live in the capital Vilnius. Over 90 percent of drug dependency cases in Lithuania are intravenous drug users. Between January and November 2001, the number of registered HIV-infected persons in Lithuania increased from 266 to 332. Sixty-three percent of HIV-positive persons were intravenous drug users. The majority of HIV-infected persons lives in the capital, Vilnius, or the port city Klaipeda and is 20-30 years old. According to the Vilnius AIDS Center in 2000, 27 percent of their visitors were infected with Hepatitis C, but the Hepatitis C infection rate among intravenous drug users was much higher.

**Treaties and Agreements.** Lithuania is a party to the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. In October 2001, Lithuania and the U.S. signed an extradition treaty. A bilateral mutual legal assistance treaty entered into force in 1999. Lithuania signed the UN Convention against Transnational Organized Crime in December 2000. In November 2001, Lithuania joined the Council of Europe's Pompidou Group to combat drug abuse and illicit trafficking in drugs.

### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** The U.S. will continue to support the GOL in a variety of programs focused on strengthening law enforcement bodies and drug control programs in an effort to improve border security and anti-smuggling efforts. The U.S. is supporting the development of a regional "Network of Excellence" to implement effective HIV prevention programs involving Scandinavia, the Baltics, and the Russian cities of St. Petersburg and Kaliningrad. The U.S. has also trained several Lithuanian law enforcement personnel.

**The Road Ahead.** The road ahead will see increased cooperation between the U.S. and Lithuanian authorities. Advanced money laundering training and anti-organized crime training will continue, subject to the availability of funds. Lithuania sees itself as a partner in U.S. efforts to counter the narcotics trade and will actively assist all our agencies in deterring these activities.

# Luxembourg

## I. Summary

The Government of Luxembourg (GOL) is firmly committed to combating international narcotics trafficking and abuse, including money laundering. As a small country in the center of Europe with open borders, Luxembourg is particularly vulnerable to serving as an unwilling narcotics transit point.

Proportional to its size, Luxembourg has a fairly high number of drug users. The GOL is particularly concerned about the rise in recreational drug use among teenagers and young people. The GOL's counternarcotics strategy focuses on demand reduction, alternative treatment, and decriminalization of use of marijuana. Seizures of illegal narcotics, including "party drugs" like MDMA ("ecstasy"), have increased. Through extensive collaboration among the Grand-Ducal police, the DEA, and a number of other law enforcement entities in Europe, important seizures in Luxembourg led to the dismantling of two major narcotics smuggling rings in 2001. Luxembourg is a party to the 1988 UN Drug Convention.

## II. Status of Country

The GOL estimates that approximately 2,450 persons in Luxembourg (0.5 percent of the total population) are high-risk consumers of narcotics. The number of such drug users has increased from 2,100 in 1997. The most prevalent narcotics in Luxembourg are opiates (84 percent of known users abuse opiates), principally heroin consumed intravenously. Cocaine and cannabis are other narcotics of primary consumption. Recreational drug use, principally marijuana and ecstasy, is another characteristic of drug abuse in Luxembourg.

Until the early 1990s, some 90 percent of illicit narcotics consumed in Luxembourg originated in the Netherlands. Consumers purchased narcotics for their own use or acquired limited quantities for resale in Luxembourg. Since the opening of EU borders, more organized distribution networks have developed in Luxembourg's illicit drugs sector. Law enforcement agencies continue to stress the negative impact of the open borders on the inflow of drugs into the country. In 1996, nine percent of registered hard-drug users reported acquiring drugs exclusively abroad; that figure dropped to three percent in 2000. (Statistics for 2000 are the latest statistics available.) Luxembourg so far has no illicit drug production.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The GOL's counternarcotics strategy emphasizes drug abuse treatment. In 2001 the GOL introduced a new law that decriminalizes the use of cannabis (marijuana) and reduces penalties for simple drug use. This step is in line with legislative trends in the neighboring countries of Belgium and the Netherlands, and European drug abuse philosophies that focus on treatment ("harm" reduction) rather than punitive enforcement. However, many observers point out that treatment can be less effective, especially for those who have committed crimes to finance their drug abuse habit, without the enforced discipline of treatment mandated by a court. The new law, introduced on April 27, 2001, foresees a legal framework for a series of harm reduction and maintenance measures such as drug substitution treatment, needle exchange, and other programs which could culminate in state-licensed injection rooms or medically controlled heroin distribution programs.

As stated in Luxembourg's National Action Plan on Drugs and Drug Addiction (2000-2004), the Ministry of Health is responsible for overall drug policy coordination. The Ministry's budget allocated to drug demand reduction measures increased from 770,000 EUR (approximately U.S. \$693,000) in 2000 to 2.71 million EUR (approximately U.S. \$2.4 million) in 2001, with additional increases of up to 34 percent



anticipated in 2002. The increases are largely due to the implementation of the 2000-2004 drug action plan.

**Law Enforcement Efforts.** In line with its obligations under the 1988 UN Drug Convention, the GOL continued to make progress in asset seizure and law enforcement. While the number of drug raids has grown since 1993, the quantities of narcotics seized have decreased since 1996. Moreover, the number of persons involved in trafficking (principally heroin) reportedly has increased. Luxembourg authorities speculate that the development of micro-networks for narcotics distribution may have contributed partly to the increase in traffickers. Interestingly, 58 percent of persons involved in drug seizures are not Luxembourg citizens.

**Agreements and Treaties.** Luxembourg is a party to the 1988 UN Drug Convention. Of the goals stated by the 1988 UN Drug Convention, Luxembourg stresses demand reduction, law enforcement, and drug-transit cooperation. Luxembourg is also a party to the 1971 UN Single Convention, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention on Narcotic Drugs. The new U.S.-Luxembourg Mutual Legal Assistance Treaty entered into force on February 2, 2002. Luxembourg has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Corruption.** As a matter of government policy, senior government officials of Luxembourg do not encourage or facilitate the illicit distribution of narcotics or the laundering of proceeds from illegal drug transactions. No senior official of the government of Luxembourg engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. There has been no recent case of corruption in Luxembourg, but when a corrupt law enforcement officer has been discovered in the past, the authorities have taken appropriate action.

#### IV. U.S. Policy Initiatives and Programs

Luxembourg is a strong supporter of U.S. initiatives to combat drugs. As an important world financial center hosting more than 200 international financial institutions, Luxembourg collaborates closely with DEA and other U.S. officials on anti-money laundering and counternarcotics initiatives. For example, careful coordination of a joint investigation between the Luxembourg Grand-Ducal Police, the DEA offices in the United States and Brussels, and police forces in neighboring EU countries resulted in the dismantling of two separate smuggling operations in 2001. These trafficking organizations had shipped large quantities of ecstasy to the United States from and via Luxembourg.

# Macedonia, Former Yugoslav Republic of

## I. Summary

The Former Yugoslav Republic of Macedonia (FYROM) is neither a major producer of, nor a major transit point for, illicit drugs, but it remains a country of concern to the United States. It lies along a southern variant of the Balkan Route, which is used to ship Southwest Asian heroin to the West European consumer market. Drug seizures in 2001 kept roughly apace with those made in 2000, when illicit drug trafficking and/or interdiction increased dramatically from previous years. Increased drug trafficking to and from Kosovo in 2000 and 2001 probably indicated both that province's increased importance as a market and as a transit point. A local insurgency in Macedonia in 2001 created even more porous borders with Kosovo, southern Serbia, and Albania, and left behind a small number of land mines. Local police efforts to combat trafficking have benefited from international assistance, and appear focused and effective despite facing increasing challenges. Seizure trends in recent years may reflect both increased professionalism in the police force and increased trafficking. The political will does not exist within the government to address seriously drug trafficking and its effects in Macedonia and Europe, and needed legislation is likely to languish for at least another year. Macedonia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Macedonia lies along one of several overland routes used to deliver Southwest Asian heroin via Turkey to Western Europe. In recent years, this route has also been used to deliver high-grade Albanian hashish to Turkey where it is exchanged for heroin. While limited amounts of marijuana are grown in Macedonia, the market for it is small because it can not compete with the higher quality, lower priced Albanian product. Macedonia is not known to produce precursor chemicals. Cocaine does not transit Macedonia in significant quantities.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** An inter-ministerial committee of ministers and deputy ministers responsible for creating and implementing counternarcotics strategy exists on paper, but the National Anti-Drugs Committee (NADC), formally headed by the Prime Minister, has been rendered helpless by constant political change that has robbed it of 80 percent of its members. New appointees must be approved by a governmental commission, and in the tumultuous political climate that resulted from the ethnic Albanian insurgency in 2001, this did not happen.

A "new action plan for fighting drugs" to bring the FRYOM's counternarcotics programs and laws into accordance with EU standards has been circulating through the government since 1999. Funds from the EU to assist in counternarcotics efforts largely have not been disbursed, however, due to the 2001 security situation, although some money should be available in 2002 now that implementation of a peace settlement is underway.

The Ministry of Interior's (MOI) department for counternarcotics trafficking was refocused under the auspices of the UNDCP-PHARE program in 1999 and the MOI established an operation analysis branch of four officers in 1999. In the future, the MOI plans to establish another three to five regional operational analysis branches in field offices. The counternarcotics department maintains a good and active relationship with Interpol and the Southeast European Cooperative Initiative (SECI) Regional Crime Center in Bucharest.

Macedonia's criminal code contains only two limited sections that address narcotics trafficking. Police and customs officials have a restricted mandate: they may only arrest traffickers in the act, with drugs; they may seize vehicles involved in trafficking, but not any other assets; they may not intercept phone or other communications lines. Some loosening of these unrealistic restrictions on law enforcement are under consideration. A constitutional amendment and a law permitting wiretapping under certain circumstances have been drafted and are waiting for government approval before they can be presented to parliament. Nonetheless, the improvements under discussion are unlikely to untie the police's hands sufficiently to improve narcotics law enforcement.

**Accomplishments.** FRYOM counternarcotics police and customs officers working together made Macedonia's largest ever heroin seizure in 2001, when in September they discovered 44 kilograms and 33 kilograms respectively in two Turkish-plated cars that entered the country at the Bulgarian border.

Macedonian counternarcotics officials, along with their Bulgarian and Romanian counterparts, continued to receive training and support from the UNDCP-PHARE program initiated in 1997-98. This encouraged continued close regional cooperation and the police worked with neighbor-country officials on several successful controlled deliveries.

**Law Enforcement Efforts.** Counternarcotics police have benefited from U.S., EU, and UNDCP training and support and are focused and effective, despite a high turnover rate among their political-appointed chiefs in the MOI. Drug seizures were high for the second year in a row, despite additional challenges posed to police because of the local insurgency. Anti-narcotic police clearly understand the need to focus on major traffickers and their organizations, which are primarily ethnic Albanian, although they had difficulty doing so in 2001 because ethnic Albanian sources refused to continue cooperation with Macedonian police during the ethnically based conflict. The police also continued to operate professionally even though budget and personnel assets were redirected toward the insurgency and international funding for counternarcotics efforts were halted temporarily.

Compilation of drug seizure statistics has improved as have conduct of cases including joint operations. The UNDCP assesses, however, that MOI drug police could benefit from more in-depth training on the latest methodologies and software used to plan and conduct cases. In 2001, police brought charges against 42 drug offenders.

**Corruption.** Corruption is deeply entrenched and is accepted by society as a part of doing business. Low salaries encourage graft among police, customs, and other officials. Anticorruption legislation drafted with technical assistance from the World Bank was approved by the government in September for submission to parliament but has yet to be added to the parliamentary agenda.

The Government of the FRYOM does not encourage or facilitate illicit production or distribution of narcotics, or narcotics-related money laundering. The U.S. has no evidence that any senior official engages in or facilitates illicit narcotics production or distribution or related money laundering.

**Agreements and Treaties.** Macedonia is a party to the 1988 UN Drug Convention. A 1902 extradition treaty between the United States and Yugoslavia, which applies to Macedonia as a successor state, governs extradition between Macedonia and the United States. Macedonia has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** Macedonia is not a major cultivator or producer of illicit narcotics. There are no reports of local illicit production or refining of heroin or production of illegal synthetic drugs. The small amount of legal opium poppy cultivation that exists is controlled strictly. Registered contractors are supplied with poppy seeds and Macedonia's only processor buys the poppies and poppy straw. Production is reported to the International Narcotics Control Bureau (INCB) in Vienna. Limited quantities of marijuana are cultivated for personal use.

**Drug Flow/Transit.** Macedonia lies along a southern variant of the Balkan Route, used to ship Southwest Asian heroin to the West European consumer market. Macedonian drug seizures in 2001 kept

roughly apace with those made in 2000, when illicit drug trafficking and/or interdiction increased dramatically from previous years. Increased drug trafficking to and from Kosovo in 2000 and 2001 probably indicated both that province's increased importance as a market and as a transit point. An insurgency in Macedonia in 2001 weakened already insufficient law enforcement efforts along the borders with Kosovo, southern Serbia, and Albania.

Macedonian police, in general, are seizing greater quantities of heroin and arresting more traffickers each year. More than 80 percent of large-scale traffickers arrested in Macedonia are ethnic Albanian. The gangs use heavy trucks, vans, buses, and cars laden with at least ten kilograms on each trip. Since early 2001, police have noticed that the traffickers have employed ethnic Macedonian drivers in order to avoid being pulled over at the numerous police checkpoints that were erected to fight the local ethnic Albanian insurgency.

Over each of the past three years, seizures of hashish and marijuana from Albania have increased. The hashish being produced in Albania is very high quality, and is being shipped to Turkey to exchange for heroin, according to police. At the same time that the quality is increasing, price is decreasing.

The small overall quantity of cocaine that enters Macedonia generally arrives in packages of one to five kilograms via airmail or courier through one of Macedonia's two airports. The average price of a kilogram of cocaine in Macedonia is between \$20,000-\$30,000. Despite police concerns, an upward trend in cocaine trafficking by air in the near term appears unlikely, as the local airline industry has been drastically harmed by both the insurgency and the fall-out of the terrorist attacks in the United States.

Trafficking in synthetic drugs remains limited in Macedonia but officials are aware that because production is simple and costs are low they are vulnerable.

**Domestic Programs (Demand Reduction).** Macedonian statistics regarding drug abuse and addiction are unreliable. Most registered drug abusers use marijuana, a lesser number use heroin, and much smaller numbers have tried other drugs. While police believe heroin abuse is rising, health care officials believe that it peaked in the early 1990s. Cocaine and synthetics abuse is very modest but use of cocaine may be rising, according to health care officials.

Macedonia's health care and social welfare systems are woefully unprepared to deal with the effects of drug abuse and dependence. Limited periodic public awareness campaigns generate only simplistic admonishments not to use drugs and do not address the underlying causes of drug abuse or provide real information about its effects. The prevailing societal attitude is that only complete abstinence is acceptable, and harm reduction activities are limited. Some local NGOs have made limited efforts at prevention programs. Macedonia has one state-run outpatient clinic for drug abusers, founded in 1985, which dispenses methadone to approximately 315 registered heroin addicts each day. Two years ago, the clinic served 420 patients, but because its capacity had been exceeded, in 2000 the director closed it to new patients until new funding becomes available. Under current budget constraints drug treatment is likely to remain a low priority.

The criminal code provides for "obligatory psychiatric treatment" for convicts who commit crimes under the heavy influence of narcotics. Limited drug treatment programs are available in both prisons for pre-trial detainees and in regular state prisons. Drug addicts are treated with methadone and those showing more serious mental and physical disorders are placed in the psychiatric hospital.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** A non-resident DEA country attaché has been accredited to Macedonia since 1997. DEA officers work closely with the Macedonian police and provide coordination support for regional counternarcotics efforts. The internal conflict caused postponement of training courses that the U.S. government had planned to provide to Macedonian police in 2001. U.S. Customs officials provide technical advice and assistance to the Macedonian customs through the auspices of SECI.

**The Road Ahead.** Because of Macedonia's porous borders and the growing strength of regional, especially ethnic Albanian, counternarcotics trafficking gangs, Macedonia is likely to face an increased transit of illegal drugs. The United States will continue to encourage the police to keep improving regional efforts at tracking large counternarcotics traffickers and refining their analytical capabilities, with international assistance. Subject to the availability of funds, delayed training and technical assistance from U.S. and other donors is expected to resume in 2002. The United States will continue to encourage reform of the criminal code, generally enabling the use of more modern narcotics enforcement techniques such as controlled delivery of narcotics, and the paid use of criminal informants.

# Malta

## I. Summary

During 2001, the GOM passed legislation that directly relates to drug-related crime in Malta, including the creation of the GOM's Financial Intelligence Unit (FIU). In response to September 11, the GOM pledged to the USG its intention to establish a financial intelligence analysis operation to combat terrorism, money laundering, and other criminal enterprises including narcotics trafficking. Malta's parliament passed the necessary legislation on December 19, 2001.

In early 2001, Malta and the U.S. signed a customs mutual assistance agreement. This agreement allows the exchange of information regarding criminal investigations as well as other intelligence information on customs operations. In addition, in August 2000, the GOM authorized and supported the USG request to board and exercise jurisdiction over the M/V Suerte, a Greek-owned, Maltese flagged vessel. The vessel, which was operating in the Caribbean, was escorted to Houston, Texas, where it was detained for alleged drug smuggling.

Malta is a party to the 1988 UN Drug Convention, which it ratified in 1999.

## II. Status of Country

Malta is not a significant player in the production (or trafficking) of narcotics nor does it play a large role in money laundering. Drug trafficking to Malta and overall drug abuse among Malta's youth are limited to small (but increasing) amounts of heroin, cocaine, and MDMA (ecstasy). The Government of Malta's (GOM) police and other agencies' efforts to combat the drug problem are covered in depth by the media. The police and other agencies receive full government/public support for their efforts. As Malta has the fourth largest ship registry in the world, and the largest free port container operation in the region, the narcotics transit problem could become more troubling. The USG's anticipated delivery of high tech container x-ray equipment to help detect/intercept weapons of mass destruction or other illegal shipping activity through Malta's free port later this year should have the additional benefit of assisting Malta's counternarcotics efforts.

## III. Country Actions Against Drugs in 2001

**Law Enforcement Efforts.** Drug law enforcement in Malta is targeted at street sales. Maltese authorities also attempt to combat the movement of drugs through the airport and sea terminal. There were seizures of 4.5 kilograms of cocaine in 2001, and 2.5 kilograms of heroin. Although monitoring drugs moving through the free port is difficult because of the high volume of container shipping, the authorities have shown they can act decisively when notified by foreign law enforcement authorities of suspicious activity. Malta does not produce or have essential chemicals and hence is not a precursor or essential chemical source country. However, such materials may be transiting through the free port.

**Corruption.** Malta has appropriate laws governing official corruption. The USG is not aware of any problems related to or associated with corruption of public officials due to illegal drug activity. In 2001 Malta customs established a new code of conduct for all GOM customs personnel to enhance the ongoing effort against corruption.

**Treaties and Agreements.** Malta 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. A 1935 extradition treaty with the UK, the former colonial power in Malta, remains applicable to Malta. It has been used in the past as the basis for U.S. extradition requests, most recently in 1998 to extradite a Maltese national involved in financial crime. Malta signed the UN

Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** There is no significant cultivation/production of narcotics in Malta.

**Drug Flow/Transit.** Malta's most typical drug problems involve the importation and distribution of small quantities of illegal drugs for individual abuse. At present, there is no indication from any source that Malta is a major trafficking location. Drug movements through Malta's free port are a potential concern, but the nature of the problem is difficult to assess. In 1996 the GOM's seized a shipping container which held marijuana.

**Domestic Programs (Demand Reduction).** Malta has a government-funded agency which deals with all aspects of drug and alcohol abuse education and treatment. The agency runs awareness and drug education programs in the school system and also organizes programs for parents at the agency's headquarters. This agency also produces and sponsors counternarcotics television commercials. In addition, Caritas (a charity affiliated with the Catholic Church) is very active in drug education/awareness programs in Malta. The results from an attitude study of Malta's population on the drug abuse problem in 1999 indicated that 81 percent consider drug abuse to be 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 USG and the GOM are finalizing several new treaties and bilateral cooperation agreements. The GOM continues to cooperate closely with USG law enforcement officials on drug-related crime. In 2001, the Federal Aviation Administration (FAA), U.S. Customs, and the U.S. Coast Guard provided training in Malta. The FAA sponsored a seminar on dangerous cargo and investigative techniques to various GOM agencies and airport personnel. The Defense Attaché (DAT) sponsored a U.S. Coast Guard maritime search and seizure training to the Armed Forces of Malta Maritime Squadron. U.S. Customs sponsored a transshipment export control workshop for Malta Customs and other related GOM agencies, and an x-ray maintenance and operational training course was conducted at the Malta airport. Since receiving this training, the police, armed forces, customs, and NDIU have steadily increased their number of arrests and seizures for drug related offenses.

In 1999 the first resident Regional Security Officer (RSO) was assigned to the U.S. Embassy in Malta, and immediately became a focal point for cooperative efforts to strengthen law enforcement. In 2001, a U.S. Customs Regional (Malta and Cyprus) Export Control Advisor was also established in Valetta. Also in 2001, a defense attaché, and the supporting Defense Attaché's Office was also established at the embassy in Valetta. The DEA Country Attaché and the FBI legal attaché, both based at the American Embassy in Rome, have provided training, support and assistance to the GOM law enforcement agencies on a continual basis. The professional relationship and cooperation between GOM police, armed forces of Malta, GOM customs and other GOM agencies and USG law enforcement agencies remains excellent.

**The Road Ahead.** The USG anticipates continued excellent cooperation with the Maltese authorities on narcotics problems.

# Moldova

## I. Summary

This year, Moldova realigned its leading counternarcotics law enforcement organization. In July 2001, the Service to Fight against Illegal Traffic in Drugs became a division of the department in the Ministry of Internal Affairs that deals with organized crime and corruption. Moldovan law enforcement authorities continue to pursue the fight against drugs, and the amount of illegal narcotics reported as seized by law enforcement officers during 2001 rose significantly over the prior year. The number of criminal cases being processed remained approximately the same. Drug use and the number of individuals addicted to drugs continues to be a problem for Moldova, but accurate statistical information in this area is not readily available. Low per capita income continues to make Moldova a relatively unattractive market for narcotics. The country is not a significant producer of narcotics or precursor chemical. In 2001, the United States provided courses of instruction aimed at improving drug law enforcement techniques. The United States also supported visits of experts who consult with state institutions on the prevention of money laundering, border control, and the fight against organized crime and corruption. Moldova is party to the 1988 UN Drug Convention.

## II. Status of Country

The geographic position of Moldova produces a climate that is favorable for opium poppy and hemp cultivation, particularly in the northern region. Cultivation of marijuana is reported to be on the increase. The market for these locally cultivated drugs remains confined to local consumption and consumption in directly neighboring countries. Importation of synthetic drugs, such as MDMA (“ecstasy”), and cocaine is also increasing, in the view of knowledgeable Moldovan enforcement officials, but cost factors confine these drugs to a limited segment of the Moldovan population. Moldovan traffickers are closely connected with drug traffickers in nearby Eastern European countries. Despite limited law enforcement resources, seizures of illegal drugs (especially poppy straw and marijuana) are increasing. Moldova is not a factor of any significance in the production of precursor chemicals.

## III. Country Actions Against Drugs in 2001

**Accomplishments.** Despite resource constraints, Moldova continues to try to meet its obligations under the 1988 UN Drug Convention and other international agreements to which it is a party. In July 2001, the Service to Fight against Illegal Traffic in Drugs became a division of the department in the Ministry of Internal Affairs that deals with organized crime and corruption. The number of law enforcement personnel in this division has increased, with 25 people in the headquarters section and 105 in the field. The division focuses exclusively on counternarcotics activity. The Moldovan legislature continues its effort to develop a new criminal code and code of criminal procedure. Once approved and implemented, it is expected that the new codes will lead to improvements in all fields of criminal justice, including counternarcotics activity. Moldova is also pursuing, with U.S. support, improvements in border control aimed at decreasing the flow of illicit goods, including narcotics.

Law enforcement authorities in Moldova are hampered by lack of government funds for support equipment. Despite these limitations, Moldovan law enforcement continues to pursue narcotics traffickers and users. Local sources report that the number of drug seizures is increasing.

**Law Enforcement Efforts.** Some 1,912 narcotics-related criminal cases were processed by law enforcement officers in the first 11 months of 2001, roughly equal to the number processed in all of 2000. In the first 11 months of 2001, Moldovan law enforcement seized 1,682 kilograms of poppy straw, 17 kilograms of opium, 108 liters of liquid opium, and 345 kilograms of hashish/marijuana.



**Corruption.** Moldova has a Department to Combat Organized Crime and Corruption. Moldova does not, as a matter of government policy, encourage or facilitate illicit production or distribution of controlled substances, or the laundering of proceeds from illegal activities related to narcotics. No senior official of the Moldovan government is known to engage in, encourage or facilitate the production or distribution of illegal drugs or substances, or the laundering of proceeds from illegal activities related to narcotics. However, there is little question that corruption at border control points and among low-paid police officers facilitates drug trafficking.

**Agreements and Treaties.** Moldova is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances.

**Drug Flow/Transit.** Periodic seizures indicate that Moldova is used as a transit route for refined narcotics moving from Central Asia to Central and Western Europe and for precursor chemicals moving in the opposite direction. The seizures are, however, too sporadic to indicate whether the transit of narcotics and precursor chemicals through Moldova is increasing or decreasing.

**Domestic Programs (Demand Reduction).** In the area of treatment for addicted individuals, Moldova has 4,987 registered addicts. Treatment is frequently unavailable, due to resource limitations. Officials have estimated that about one percent of the population abuses drugs. Funding for counternarcotics information campaigns and education is also limited, although NGOs do some work in this area.

#### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** The U.S. Department of State sponsors several important programs to assist Moldova's efforts to control illegal narcotics. Experts from the DEA present an ongoing series of counternarcotics courses to law enforcement personnel in Moldova. Forensic and police surveillance equipment has been provided. Computer training centers have been established in a multi-year project to give Moldovan law enforcement officers the opportunity to learn how to use advanced technology. The FBI is presenting an ongoing series of courses on fighting organized crime and corruption in Moldova. Considerable support from various U.S. government law enforcement agencies for border control projects has been and continues to be provided. The response of Moldovan law enforcement and high-ranking officials to these efforts has been extremely positive and the United States is actively planning additional ways to assist local counternarcotics efforts.

# Netherlands

## I. Summary

Although the Dutch government has given priority to combating narcotics trafficking, the Netherlands continues to be an important transit point for drugs entering Europe, one of the largest producers and exporters of illicit amphetamine and synthetic drugs, and an important consumer of most illicit drugs. The volume of MDMA (ecstasy) exported to the United States during 2001 continued to be high. A large share of ecstasy entering the United States has been manufactured in, or transited the Netherlands, but it has not been determined that ecstasy from the Netherlands has a significant effect on the United States. The United States remains concerned about the rising imports of foreign-origin, illegal synthetic drugs into the United States, especially ecstasy from Europe.

In May 2001, the Dutch government, realizing that its efforts to fight against synthetic drugs had not produced sufficient results, announced a new five-year strategy against the production, trade, and consumption of synthetic drugs. The strategy is sound, but many of the steps it calls for are scheduled only for gradual implementation. Operational cooperation between U.S. and Dutch law enforcement agencies is excellent. Bilateral law enforcement talks held in Washington in April 2001 proved successful, and there is close Dutch-U.S. cooperation on joint counternarcotics operations in the Caribbean.

The Dutch government and public view domestic drug use as a public health issue first and a law enforcement issue second. Dutch demand-reduction programs reach about 75 percent of the country's estimated 28,000 hard drug users. The Dutch are major donors to the UNDCP and members of the Dublin Group of governments concerned with narcotics trafficking. They also chair the Dublin Group's 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 central geographical position of the Netherlands, with its modern transportation and communications infrastructure and the world's busiest seaport in Rotterdam, makes the country an attractive operational area for international drug traffickers and money launderers. Production of amphetamines, ecstasy and other synthetic drugs, and marijuana is significant. The Netherlands also has a large chemical sector, making it a major source of precursor chemicals used to manufacture illicit drugs. (For details, please see the Chemical Controls section of this report.)

The Dutch Opium Act punishes possession, commercial distribution, production, import, and export of all illicit drugs. Drug use, however, is not an offense. The act distinguishes between "hard" drugs that have "unacceptable" risks (e.g. heroin, cocaine, ecstasy), and "soft" drugs (cannabis products). Trafficking in the former is prosecuted vigorously. "Hard" drug dealers are subject to a prison sentence of 12 years. When this takes place on an organized scale, another one-third of the sentence is added (16 years). Sales of small amounts (under five grams) of cannabis products are "tolerated" (i.e., not prosecuted, even though technically illegal) in "coffee shops" 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. Another goal—arguably less successful—has been to separate "revenue streams" so that hard drug dealers do not use soft drug dealing as a source of capital.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Major Dutch government policy initiatives in 2001 include:

**Ecstasy.** In May 2001, the Dutch government, very concerned about the Netherlands's leading position in the international synthetic drug market and its leading role as ecstasy producer, announced a strong five-year (2002-2006) offensive against production, trade, and consumption of synthetic drugs. It has allocated approximately U.S. \$16 million per year for this five-year effort. The new offensive emphasizes intensified cooperation among all enforcement agencies, in which the Police Synthetic Drugs Unit (USD) plays a coordinating role. The USD's staff and budget will be expanded, and it will keep its coordinating task and remain the sole international point of contact, including for matters relating to mutual legal assistance. Other planned measures include the establishment of five regional ecstasy teams of 120 police officers, expansion of existing know-how on dismantling production laboratories, expansion of customs efforts, increased cooperation with the EU, intensified controls on chemical precursors, and more emphasis on information campaigns. Action on most of this is pending; the regional ecstasy teams, for example, are not due to be established until 2003.

USD public prosecutor Witteveen recently noted that the police and justice authorities are now practically powerless in the fight against the growing ecstasy industry in the Netherlands. He said that gains can be registered only with the establishment of a national criminal investigation service and a doubling of manpower. He also stressed the need for more aggressive investigation methods, such as the ability to employ informers. Dutch policy restrictions—but not law—on use of civilian informers are stricter than in the U.S.; it is particularly difficult for police to obtain authorization to “turn” an individual already associated with a criminal organization.

Research by the Amsterdam University Medical Center showed that ecstasy affects short-term memory, and that, particularly, women appear to be more sensitive to ecstasy use. The study, published in November 2001, proved that, not only recent users, but also people who had not used ecstasy for well over a year, had memory problems.

**Cannabis.** As a result of intensified controls, in 2000 the number of coffee shops where cannabis can be used dropped by 31 percent from the 1997 figure of 813 to 642. A 2001 evaluation report of Dutch “coffee shop” policy showed that, in 2000, 81 percent of the 538 municipalities in the Netherlands did not tolerate any shops at all. According to the report, about half the coffee shops were in the four largest cities. The report also concluded that the stricter measures for sales of cannabis products in coffee shops have not led to a drop in drug “tourism.”

The European School Survey Project on Alcohol and Other Drugs (ESPAD) shows that recent cannabis use among 15 and 16-year-olds in the Netherlands has stabilized at 14 percent (life-time prevalence: 28 percent). According to the 2001 National Drug Monitor, published in March 2001, the number of current cannabis users is estimated at 323,000, or 2.5 percent of the Dutch population of 12 years and older (of a total population of about 16 million). The National Drug Monitor puts the THC content in Dutch-grown hemp, “Nederwiet,” at 11.3 percent. With respect to the latter, Dutch Health Minister Borst recently stressed the need for further research into the relation between the THC content in “Nederwiet” and public health risks. She also announced information campaigns warning the public of the risks of a high THC content. Controls on illegal home cultivation of “Nederwiet” have been stepped up, but most observers note that cannabis sold at coffee shops comes overwhelmingly from Holland.

**Medicinal Cannabis Use.** In October 2001, the Dutch government approved a proposal by Health Minister Borst to start supplying cannabis to patients suffering from diseases such as MS, AIDS, and cancer who have a doctor's prescription. The Bureau for Medicinal Cannabis, set up by the Health Ministry, will contract cannabis growers, set up quality controls, and organize the distribution. The effective date of the measure is still uncertain.

**Enforced Treatment.** As of April 2001, criminal drug addicts who are repeat offenders can be sent to special drug-free prisons for two years, during which they receive treatment, job training, and

resocialization. Addicts refusing to be treated are sent to an ordinary prison. The program is meant to get so-called “revolving-door” criminals, mostly petty thieves, off the street. It is initially aimed at some 1,500 addicts in the largest cities. The effects of the new law will be scientifically evaluated.

**New “Party” Drugs.** Dutch drug experts warned against use of the fatal “Special K” (Ketamine) drug, which appeared in Dutch discos and rave parties in 2001. Drug dealers are selling the drug as ecstasy pills. Warnings were also issued for “polluted” ecstasy pills containing PMA, killing two people in 2001.

**Accomplishments.** A legal counselor has been positioned and two police liaison officers will be stationed at the Dutch Embassy in Washington, D.C. and the soon-to-be-opened Consulate in Miami. In response to complaints that Dutch drug policies have a negative impact on its neighbors, the Customs Service’s budget will be raised so that control on the outgoing (not just incoming) flow of passengers, freight, and parcel post can be intensified through extra scanners and drug-detecting dogs. The Royal Military Police unit, which handles security at Schiphol Airport, will also be expanded.

**Law Enforcement Efforts.** Overall drug policy is coordinated by the Health Ministry, while the Ministry of Justice is responsible for law enforcement. Matters relating to local government and the police are the responsibility of the Ministry of Interior. Dutch interregional police “IRT Kern” teams and national prosecutors give high priority to combating drug trafficking. In its offensive against synthetic drugs, the Dutch government has set aside extra funds to establish five additional ecstasy teams to combat production sites and dismantle major trafficking organizations. DEA agents have close contacts with their counterparts in the Netherlands.

Coordination of foreign law enforcement information requests would benefit from greater centralization. Given the Netherlands’s central role in the worldwide ecstasy problem, and its importance as a source of diverted precursor chemicals, Dutch enforcement officials have been receiving more requests from foreign counterparts for investigative assistance. All foreign requests are sent to a regional intelligence department. Due to reorganization, the American desk at DIN is understaffed, causing delays in responding to U.S. requests. In addition, it is often difficult for foreign authorities to find a police region with clear-cut responsibility for handling a specific case. Efforts are underway to fix this problem.

**Corruption.** There were no cases of drug-related corruption reported in 2001. The Government of the Netherlands does not as a matter of government policy or practice, 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. No senior official of the government of the Netherlands engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

**Cultivation/Production.** Currently, about 75 percent of the Dutch cannabis market is Dutch-grown marijuana (“Nederwiet”). The relatively high THC content of domestically grown cannabis makes it more appealing to Dutch consumers than competing imports. Amsterdam University researchers estimate that the Netherlands has at least 100,000 illegal home growers of hashish and marijuana, and the number is increasing. Together they produce more than 100,000 kilograms of soft drugs and are the largest suppliers of coffee shops, according to the study. The estimates are based on a significant rise in the number of lawsuits and police raids. Authorities say they suppress large-scale commercial production.

The Netherlands dominates worldwide trade in and production of ecstasy. Whereas the number of ecstasy seizures in the Netherlands in 2000 dropped to 125 from 154 in 1999, the number of Dutch-produced ecstasy pills seized in foreign countries rose significantly. In total, the USD received some 453 reports of ecstasy seizures in 35 countries, involving 22 million pills, ten million pills more than in 1999. Some 22 percent of reported seizures took place in the Netherlands and 78 percent in other countries. The USD notes significant increases in ecstasy exports to the United States. More than 40 percent of pills seized in the Netherlands were destined for the U.S. market. In 2000, the USD dismantled some 37 production sites for synthetic drugs, of which 34 were associated with ecstasy production. Intensified actions by the Dutch police have forced some Dutch producers to relocate their activities to Belgium and Germany,

according to the USD, but the Netherlands remains the center of illicit ecstasy production. In the Netherlands, Israeli criminal organizations play a key role in the logistical aspects of the illicit ecstasy trade.

**Agreements and Treaties.** The Netherlands is a party to the 1988 UN Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The Netherlands has signed but has not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. The United States and the Netherlands have a mutual legal assistance treaty and an extradition treaty in force. (The mutual legal assistance treaty does not apply to requests for assistance relating to fiscal offenses addressed to Aruba or the Netherlands Antilles.)

**Drug Flow/Transit.** The Dutch government has proposed expanding the number of container scanners currently installed in the port of Rotterdam and at Schiphol Airport. The Schiphol team, in which customs officials and military police cooperate, specializes in detecting drug couriers. The number of couriers arrested at Schiphol rose from 618 in 1999 to 769 in 2000. In 2000, some 6,029 kilograms of drugs were seized at Schiphol, compared to 4,208 kilograms in 1999. Cocaine seizures rose to 4,404 kilograms from 3,200 kilograms in 1999. Of the total seizures, more than 3,000 kilograms were hidden in airfreight, and the remainder was carried by couriers. Controls of highways and international trains connecting the Netherlands to neighboring countries were also intensified.

**Domestic Programs (Demand Reduction).** The Netherlands has a wide variety of demand-reduction and harm-reduction programs, reaching about 80 percent of the country's 28,000 hard drug users. The number of hard drug addicts has stabilized in the past few years, their average age has risen to 38, and the number of overdose deaths related to opiates in the Netherlands has stabilized at some 40 per year. Needle supply and exchange programs have kept the incidence of HIV infection among intravenous drug users relatively low. Of the addicts known to the addiction care organizations, 75 percent regularly use methadone. Currently, some 600 chronic addicts, for whom all other forms of treatment have failed, participate in the "heroin experiment." The purpose of the program is to see whether "treating" them with a combination of heroin and methadone helps to improve their health and ability to function in society. The experiment will be assessed in the spring of 2002.

According to the 2001 National Drug Monitor, out-patient treatment centers registered some 26,605 drug users seeking treatment for their addiction in 2000, compared to 26,333 the prior year. The number of cannabis and opiate addicts seeking treatment has stabilized at 3,443 and almost 16,000, respectively. The number of assistance requests for problems with ecstasy and amphetamine use in 2000 dropped by four percent and 23 percent, respectively, from requests made in 1999, to 241 and 623 requests, respectively. However, the number of cocaine and/or crack addicts seeking treatment in 2000 rose by more than seven percent to 6,103, a growing trend which is expected to continue. About 22 percent of all new drug clients were older than 39 years. Total costs of Dutch drug treatment programs are put at 100 million dollars.

Drug use among students ages 12 years and older is generally low, ranging from a high of approximately ten percent for cannabis to a low of about one-half of one percent for heroin.

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. In the fall of 2001, the Health Ministry and the Trimbos Institute launched the campaign "Drugs, Don't Kid Yourself," providing drug information to parents, teachers, and students.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** Although operational cooperation between U.S. and Dutch law enforcement agencies is excellent, there is a growing concern over the Netherlands's role as the key source country for

ecstasy entering the United States. In 2000, the U.S. Embassy in The Hague proposed a three-pronged effort (political engagement, training, and enhanced consultation at the working level, and public diplomacy) aimed at improving bilateral law enforcement cooperation. The Dutch have responded positively to USG efforts.

**The Road Ahead.** We expect U.S.-Dutch bilateral law enforcement cooperation, already strong, to intensify. The Dutch government's Ecstasy Action Plan will further counter illicit trafficking. The Dutch synthetic drug unit will continue to make concrete progress. U.S.-Dutch cooperation in countering trafficking in the Caribbean will expand, especially with operations at the Forward Operations Locations (FOLs) on Aruba and Curaçao. (See the separate report on the Dutch Caribbean for details.) However, important differences in approaches toward "soft" drugs, as well as differing legal procedures and law enforcement structures could continue to complicate bilateral cooperation against drugs.

# Norway

## I. Summary

While illicit drug production in Norway remained insignificant in 2001, statistics show illicit drug consumption increased relatively strongly. Norway continued to tightly control domestic sales, exports, and imports of precursor chemicals. Norway is unlikely to become significant in terms of precursor chemicals because legislation and enforcement discourage this illicit activity on a large scale. In 2001, the number of drug seizures in Norway rose significantly (16 percent), continuing a trend of some years' duration, with cannabis seizures accounting for the bulk (38 percent) followed by seizures of benzodiazepines (20 percent) and amphetamines (15 percent). In 2001, the police stepped up efforts to track and intercept drugs in transit and seized a record 40 kilograms of heroin in January arriving from Central Europe (i.e., the FRY-Federal Republic of Yugoslavia). Norway is implementing several 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 police sources and Ministry of Health and Social Affairs officials, illicit drug production remained insignificant in 2001 because of Norway's tight regulations governing domestic sales, exports, and imports of precursor chemicals, and Norway's harsh climate. Norway remains a popular market and transit country for drugs produced in Central/Eastern Europe and elsewhere, but the strong increase in narcotics seizures may be helping curb the problem. Norway is unlikely to become a significant producer of precursor chemicals given its prohibitive regulatory framework and excellent law enforcement.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Several key ministries implement Norway's counternarcotics efforts. The Justice Ministry continued implementing its counternarcotics action plan to meet the objectives of the 1988 UN Drug Convention. The key goals of the plan are to reduce the inward flow of illicit drugs, curb illicit drug distribution, reduce domestic drug consumption, and coordinate with other ministries in the fight against illicit drugs and related crimes. Norway continues to cooperate closely with police forces in Nordic and other countries on drug cases. For example, in October 2001, the Justice Ministry announced it was considering sending a Norwegian police officer to Dubai Airport, in part to help monitor the smuggling of narcotics. According to the Ministry, international criminals smuggle narcotics from Dubai Airport to Norway and the other Nordic countries. The Norwegian police officer stationed there would be able to inspect travel documents of Norway-bound passengers, and turn away criminal elements known to Norwegian authorities.

In 2001, Norway's Customs and Excise Directorate continued implementing its own counternarcotics plan aimed at curbing drug imports, and seizing illicit drug money and chemicals used in narcotics production. The Customs Directorate, which has established a mobile narcotics control unit (including drug-sniffing dogs), has strengthened its surveillance and continues to coordinate its efforts with the police and the Coast Guard.

In 2001, Norway's Ministry of Health and Social Affairs continued to implement educational and other programs to reduce drug abuse through the Norwegian Directorate for the Prevention of Alcohol and Drug problems. The Ministry's counternarcotics program is outlined in a White Paper unveiled in 2000, entitled: "Narcotics Problems in Norway: Report and Anti-drugs Measures." In September 2001, the Ministry proposed the establishment of "needle rooms" where drug addicts could inject themselves under supervision in an effort to reduce narcotics-related crime and the spread of AIDS. The program was

begun on a limited trial basis. Whether this program will be continued into the future has yet to be decided.

Norway's Ministry of Defense continued to implement programs to reduce narcotics use in the armed forces by conducting seminars and distributing counternarcotics information to the military. On the local government level, counternarcotics campaigns were launched in 2000 and 2001. Illustratively, the city of Oslo, which has established an counternarcotics campaign unit, campaigned against the increasing use of cocaine and ecstasy by young people.

**Accomplishments.** According to the Ministry of Health and Social Affairs, Norway remains in full compliance with the 1988 UN Drug Convention, with the country's counternarcotics plans/initiatives progressing as scheduled, counternarcotics law enforcement being strengthened, and cooperation with the UNDCP remaining in place. In 2001, Norway also cooperated with EU's European Monitoring Center for Drugs and Drug Addiction (EMCDDA) on issues relating to narcotics problems and counternarcotics measures and policy. In September 2001, there was an counternarcotics festival in Lillehammer attended by government officials, the Crown Prince and former drug addicts. In 2001, there were also several counternarcotics debates aired on radio and TV.

**Law Enforcement Efforts.** According to statistics compiled by Norway's Criminal Police (KRIPOS), the number of drug seizures rose 16 percent during 2001 to 27,720 cases, from 23,919 in 2000 (Final Figures). According to the statistics, cannabis and amphetamine seizures rose most strongly in terms of number of seizures, but seizures of heroin and ecstasy also remained significant.

Law enforcement efforts were also stepped up, resulting in a record number of persons charged with narcotics-related crimes.

In order to discourage the use of narcotics substances, the authorities increased the fines relating to narcotics offenses in 2000. While the maximum penalty for a narcotics crime in Norway is 21 years imprisonment, penalties for carrying small amounts of narcotics remain mild. In 2001, three Eastern Europeans and one Norwegian national were given jail sentences ranging between two to seven years for smuggling 201 kilograms of hashish into Norway. In 2001, the police repeated earlier calls for bigger budgets and permission to use bugging devices to help improve the law enforcement effort.

Norwegian counternarcotics authorities cooperate frequently with their counterparts in the Nordic countries and the United States.

**Corruption.** While public corruption is rising, with some 250 cases reported in 2001 versus 38 cases in 1991, the level of corruption in Norway remains modest in global comparison. In 2001, Norway's specialized economic crime unit brought its biggest ever corruption case to court: A former UNICEF director allegedly received U.S. \$1 million worth of bribes in the 1989-96 period to award construction contracts to one Norwegian and six foreign companies. However, the United States has no evidence of drug-related corruption in Norway.

**Agreements and Treaties.** Norway is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Norway's extradition law (of 1975) governs extradition of criminals to the United States and other countries. Norway has bilateral customs agreements with the United States, the EU, Russia, countries in Central and Eastern Europe, and other trading partners. Norway is a member of Interpol, the Dublin group, and the Pompidou group. Norway has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** In 2001, illicit cultivation of drugs remained very limited in Norway due to the country's harsh climate and tough laws governing drugs and drug distribution. Very small quantities of Norwegian-grown hashish/cannabis were reportedly detected, concealed as house plants in private premises.



**Drug Flow/Transit.** According to the Police Crime Unit, the inflow of illicit drugs continued to increase in 2001, with cannabis, benzodiazepines, and amphetamines in the lead. Most illicit drugs are entering Norway by road from other European countries such as the Netherlands, Belgium, Germany, and Central and Eastern Europe, especially Poland and Hungary. As in the past, some drugs have been seized in commercial vessels arriving from the European continent and Central/South America. Nationals of the Former Republic of Yugoslavia continued to reinforce their prominent position in Norway's illicit drugs market.

**Domestic Programs (Demand Reduction).** Government ministries and local authorities continue to initiate and strengthen counternarcotics abuse programs. According to the Ministry of Health and Social Services, the increasing number of drug-related deaths suggests that these programs need further strengthening to become effective.

### **IV. U.S. Policy Initiatives and Programs**

As in past years, the United States had no counternarcotics assistance programs in Norway in 2001. DEA officials consult with Norwegian counterparts when required.

# Poland

## I. Summary

Poland's improving economic status and its relative economic success among the countries of Central and Eastern Europe has led to a growth in the country's domestic market for narcotics as well as the amount of narcotics transiting Poland to the EU and beyond. Not only are Polish law enforcement officials faced with a steady stream of narcotics from the east as well as Latin America, but they also face large quantities of domestically produced amphetamines. With EU accession on the horizon, Polish officials have made significant strides in breaking up organized crime syndicates involved in drug trafficking and identifying where further improvement is necessary. While committed to combating narcotics trafficking and use, Polish authorities are challenged by budgetary shortfalls. Poland is a party to the 1988 UN Drug Convention.

## II. Status of Country

Poland has become a major center for synthetic drug production, particularly amphetamines. MDMA (ecstasy) is produced in large quantities in Poland, and law enforcement officials estimate that Poland is one of the leading suppliers of amphetamines to European markets. Available information does not suggest that synthetic drugs produced in Poland have a significant effect on the United States. Poland is also a major producer of precursor chemicals as well as a transshipment route from eastern suppliers of precursors and narcotics, particularly Ukraine and Turkey.

Poland has an estimated 40,000 to 60,000 drug addicts with the drugs of choice being marijuana, amphetamines, including one called "Kompot" locally, and heroin (for smoking). Drug abuse and drug-related crime are increasing in Poland and represent a serious problem. (Drug-related crimes increased 27 percent over the previous year and arrests were up by 39 percent.) In recent years, Poland has seen significantly lower ages for first-time drug users as well as a much wider variety of illegal drugs available on the local market.

Although there are more than 400 criminal groups operating in Poland, the drug trade is largely controlled by just three syndicates operating in the Warsaw area and Gdansk. Poland's law enforcement community has had marked success in breaking up drug smuggling operations, specifically ones that had smuggled cocaine from South America, and it is continuing to improve its ability to identify and locate locally produced narcotics, much of which come from mobile clandestine laboratories.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** On November 17, 2000, President Kwasniewski signed into law three significant amendments to the National Program for Counteracting Narcotics (NPCN), of which the most controversial was the criminalization of possession of drugs. Previously, possession of small amounts of drugs for personal use was not illegal, but one of the new amendments calls for zero tolerance. The other two concern court-ordered drug treatment/counseling and penalization of business owners who foster an atmosphere tolerant of drug sales on their properties.

However, the amendments have had an unintended negative impact on one issue of great importance to law enforcement: the use of confidential informants (non-police agents) to purchase narcotics. Prior to the amendments, it was not illegal for such informants to possess small quantities of narcotics. However, the new legal structures ban possession and therefore non-police confidential informants cannot legally be used for "sting/buy-bust" operations. These operations would be in violation of the law because the amendments make no distinction between possession by the public in general and private individuals

acting on behalf of Polish law enforcement authorities. Although law enforcement authorities are aware of this shortcoming in legislation, the parliament has yet to consider the necessary amendment to the law.

A second set of amendments that took effect on November 14, 2001, authorizes stiffer penalties for production, import, export, purchase, possession, and storage of precursors with intent to produce illegal drugs. The new amendments also oblige managers of firms manufacturing precursors to inform law enforcement officials immediately if they observe any suspicious movement of precursors. In what may be a trend toward more transparency in the Polish legal system, law enforcement officials now have authorization to store small amounts of drugs for law enforcement purposes, including “sting” operations by undercover police.

The National Bureau for Drug Prevention, in cooperation with other institutions, is responsible for counteracting drug addiction. The Bureau is currently drafting the new National Drug Strategy, which it is expected to complete at the end of 2001.

**Accomplishments.** The DEA and the Polish Central Bureau of Investigations recently completed the second phase of an investigation targeting an international operations smuggling MDMA (ecstasy). This operation, based in Warsaw and Krakow, is responsible for the manufacture of a deadly form of ecstasy, commonly referred to as PMA/PMMA. A single source in Poland has been linked to more than 20 deaths worldwide resulting from the use of PMA/PMMA.

**Law Enforcement Efforts.** The Polish government has undertaken the task of reorganizing its Central Investigation Bureau (the Polish equivalent of the FBI). U.S. authorities are uncertain how this will affect bilateral working relationships on narcotics issues.

The United States’ recent donation of two x-ray vans will assist in detection of narcotics at Poland’s eastern border crossings. Other technological improvements installed along the eastern border include motion-sensing equipment and infrared surveillance cameras. Heroin seizures this year (243 kilograms through the first nine months of 2001) exceeded seizures during the same period of 2000.

**Corruption.** Poland’s new government and the new commander of the Polish National Police, Antoni Kowalczyk, have identified the fight against corruption among public officials as a priority and have announced plans to implement an overarching anticorruption program (to include new legislation and organizational changes) throughout the country. While instances of small-scale corruption—bribery, smuggling, etc.—are prevalent at all levels within the Customs Service and among the police, the USG is not aware of large-scale corruption that facilitates the production, processing or shipment of narcotic and psychotropic drugs and other controlled substances.

Polish National Police internal affairs offices and the Central Investigation Bureau have stepped up efforts in the past year to investigate small-scale corruption that impedes or discourages police investigations or prosecution. The number of cases investigated and successfully prosecuted relative to the number of reported incidents, however, remains low.

The GOP does not encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances. As a matter of government policy, Poland does not encourage or facilitate the laundering of proceeds from illegal drug transactions.

**Agreements and Treaties.** Poland is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1962 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the 1972 Single Convention. Poland and the United States have an extradition treaty and a mutual legal assistance treaty in force between them. In December 2000, Poland signed the UN Convention against Transnational Organized Crime and the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and in October 2001 the Protocol against the Smuggling of Migrants. Poland has not yet ratified either this Convention or the two protocols because additional legislative changes are required. Increased drug seizures and a higher prosecution rate demonstrate Poland’s commitment to these agreements.

**Drug Flow/Transit.** While synthetic drugs are manufactured in Poland (the precursors are usually imported from other countries), heroin, hashish, and cocaine, besides being consumed on the local market, frequently transit Poland en route to Western Europe. However, police say they lack a basis to estimate, with any precision, the amount of illegal drugs flowing through Poland.

**Domestic Programs (Demand Reduction).** The Law on Counteracting Drug Addiction requires the Ministry of Education to provide a drug prevention curriculum for schools and to provide support for demand reduction projects based on a community approach. In reality, these programs have not been sufficiently funded to allow implementation throughout the school system.

#### IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** Continued seminars and train-the-trainer programs, conducted by the DEA, will be part of the 2002 outreach plan as part of the overall goal of stemming the flow of illicit narcotics through Poland and terminating the production of narcotics on its territory.

**Bilateral Cooperation.** The DEA maintains close contact with Polish law enforcement officials on narcotics matters and cooperates with two full-time agents from the FBI posted in Warsaw. In addition to numerous liaison meetings between DEA officials and their Polish counterparts, the United States hosted a four-day training seminar on laboratory techniques for narcotics detection and analysis. Other seminars and information-sharing sessions on organized crime included specific references to the narcotics trade.

**The Road Ahead.** Subject to the availability of funds, the USG will fund programs addressing enhanced technological capacity to manage organized crime investigations, development and implementation of the financial intelligence unit; an anticorruption curriculum for the public schools will strengthen Poland's ability, over the long term, to fight narcotics trafficking and abuse.

# Portugal

## I. Summary

Portugal is a significant international gateway into Europe for drug smuggling. Domestically, heroin use poses the most significant health risks, followed by hashish and cocaine. Drugs enter by air and sea and transit overland both to and from other European countries. Most drugs transiting Portugal enter from North Africa, South America, and Turkey. U.S.-Portuguese cooperation on drugs includes visits by U.S. officials and experts, training of law enforcement personnel, and assistance in establishing rehabilitation programs. Portugal participates actively in international counternarcotics efforts. The GOP views drug addiction as a public health problem and administers a wide variety of treatment and “harm reduction” programs, including methadone and needle-exchange programs. In 2001, following a European trend, a new law decriminalizing drug use in small quantities went into effect. Portugal is a party to the 1988 UN Drug Convention.

## II. Status of Country

Drug smugglers use Portugal as a point of entry for shipments headed into Europe from North Africa (notably Morocco), from Latin American countries (particularly Brazil, Venezuela, Colombia, and Ecuador), and increasingly from Turkey. Portugal’s open borders with other parties to the Schengen Agreement simplify the work of drug smugglers, and linguistic and cultural ties with Brazil and the former Portuguese colonies in Africa facilitate trafficking from those countries. Moroccan hashish and Afghan opium have entered Portugal through the Schengen countries. Cocaine and heroin enter Portugal by commercial aircraft, truck, and maritime vessel. Heroin refined in Turkey transits to Portugal through Holland and Spain and is consumed domestically or exported. Cocaine produced in Colombia transits through Brazil and Portugal en route to the rest of Europe. The United States has not been identified as a final destination for drugs transiting Portugal. Portugal requires the identification to the Customs Bureau of end users of all narcotics-related chemicals imported into Portugal.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** On July 1, 2001, a new law took effect that decriminalizes drug use for both “casual” consumers and addicts. Under the new law, “consumption, acquisition, and possession of drugs for personal use,” becomes a simple administrative offense. The maximum quantity allowed any one person is not to exceed ten days’ worth of drug supply, for example, 2.5 grams of hashish or one gram of cocaine or heroin. The penalties for consumers are monetary fines not unlike a speeding ticket. Fines for possession of methadone, morphine, opium, cocaine, and amphetamines range from U.S. \$25 to U.S. \$325, and for possession of hashish from U.S. \$25 to U.S. \$150. After paying the fine, the user is referred to a Commission for the Deterrence of Drug Addiction, a team of substance abuse professionals, for treatment and/or onward referral.

On August 25, 2001, another new law was passed aimed at improving international judicial cooperation in criminal matters. The new law allows for criminal investigations in Portugal to be carried out by teams of Portuguese and foreign, primarily EU-member country, investigators. These joint investigations can only be pursued if there is reciprocity and an appropriate treaty with the country in question. The new law allows foreign law enforcement personnel in conjunction with Portuguese police to engage in extensive surveillance of drug deliveries and transactions in order to facilitate apprehension of more traffickers; conduct undercover operations, something previously forbidden by Portuguese law; and utilize wiretaps and other telecommunication intercepts in criminal inquiries. This new law brings Portugal in line with EU practice and reflects the EU’s increasing interest in fighting international organized crime in general, and the drug problem in particular.

**Accomplishments.** In February 2001 a resolution of the Council of Ministers established the government's 30 main objectives in the fight against drugs and drug addiction. This master plan, required to be accomplished by 2004, sets the course of Portugal's increasing efforts to combat drug trafficking, sale, and abuse. The objectives include: strengthening the fight against drug trafficking and money laundering; establishing a joint program with Spain to control the cross-border flow of drug traffickers and consumers; establishing national treatment centers; deploying mobile units designed to fight the spread of infectious disease; providing syringe exchange programs; and creating a data processing network for the National Information System by the end of 2001 to optimize information gathering and drug consumption surveys.

**Law Enforcement Efforts.** Portugal has four separate law enforcement agencies that deal with the drug problem—the Judicial Police (PJ), the Public Security Police (PSP), the Republican National Guard (GNR), and the Customs Bureau (DGAIEC). The PJ is a unit of the Justice Ministry with overall responsibility for investigating criminal matters and coordinating enforcement efforts. The PSP and GNR, units of the Internal Affairs Ministry, are uniformed forces operating in the cities and countryside, respectively, although in practice overlap often occurs. Two separate units fulfill the functions of a Coast Guard, the Maritime Police, and the Fiscal Brigade, patrolling inland waterways and the coast. PSP officers in some cities are involved in a “safe schools” project similar to the D.A.R.E. drug awareness program in the United States.

In March of each year, the previous year's drug use and apprehension statistics are released. According to the report for the year 2000, there was a dramatic increase in the volume of drug apprehensions. Heroin seizures increased sevenfold, and seizures of cocaine and hashish rose threefold each. Three metric tons of cocaine were seized in 2000, and more than one-half of one metric ton of heroin was seized in 2000. Portugal explains these increases to be primarily a result of increased and improved police strategies.

In November and December 2001, Portuguese police concluded months of investigations by arresting 33 drug traffickers and seizing hundreds of thousands of doses of heroin, hashish, cocaine, and ecstasy. In December, police dismantled two international rings of traffickers. In the first, 12 traffickers were arrested while in the process of receiving four million doses of hashish. In the second, authorities apprehended the leaders of a ring smuggling ecstasy pills from Spain and the Netherlands.

**Corruption.** No cases of systematic or large-scale corruption were reported in 2001.

**Agreements and Treaties.** Portugal is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention on Narcotic Drugs. A customs mutual assistance agreement (CMAA) has been in force between Portugal and the United States since 1996. Portugal and the United States cooperate in extradition matters under a 1908 extradition treaty. The extradition treaty does not cover financial crimes, drug trafficking, or organized crime. However, drug trafficking offenses are extraditable through application of the 1988 UN Drug Convention. Portugal has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. The United States and Portugal have a 1928 arrangement for the exchange of certain information regarding the traffic in narcotic drugs. 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 2001, 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 and formulate policy and coordinate actions on narcotics and trafficking issues. During the February 2001 Council of Ministers meeting setting forth a national drug strategy, Portugal established a specific mission to the Pompidou Group. This mission, strengthening Portugal's ties to the group, is a step forward in Portuguese international involvement in fighting narcotics trafficking

and use. 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, illicit drug production is not a significant concern.

**Drug Flow/Transit.** Portugal's exposed geographic position and 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 appears to be increasing; joint operations to smuggle narcotics now seem a realistic possibility. A Turkish trafficking group seeks to turn the Iberian Peninsula into a narcotics distribution center for all of Europe, but has not been successful yet.

**Domestic Programs (Demand Reduction).** Drug programs overall are coordinated by the Secretary of State for the Presidency of the Council of Ministers, who is directly responsible to the Prime Minister. The Institute for Drugs and Drug Addiction, a new Portuguese government office, serves as a statistical gathering and dissemination center for narcotics issues. It also serves as the country liaison office for the European Monitoring Center on Drugs and Drug Addiction (EMCDDA). The results of a comprehensive drug consumption survey of 70,000 youth aged 13 to 18, commissioned by the Institute and conducted by a local university, are due to be published in April 2002. The Institute also promotes counternarcotics public service advertising campaigns similar to campaigns on the danger of AIDS. As a part of the law decriminalizing drugs, which came into force July 2001, the government established regional commissions charged with reducing demand for drugs and facilitating the treatment of consumers. These commissions determine what treatment if any is necessary and what fines will be imposed upon those arrested for drug use under the new law. The Ministry of Health administers needle exchange, psychiatric, methadone, and detoxification programs. The Portuguese consider drug addiction to be an illness, not a crime. Branch clinics of the Ministry of Health offer methadone treatment. Registered addicts can obtain 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 DEA office in the U.S. Embassy in Madrid cooperates with the Portuguese Judicial Police on high-profile cases. The Portuguese Customs Bureau cooperates with the United States 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. Two more classes were conducted in February 2001, with more planned for 2002.

The ODC (Office of Defense Cooperation) at the U.S. Embassy in Lisbon, through the Extended Military Education and Training program (E-IMET), provided funding for 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 utilize drug testing and treatment services from this program. The final phases of implementation and evaluation of this program occurred in 2001. Run according to American Medical Association standards and using the Hazelden Model, the program changed in 2001 from a closed to a more cost-effective open-style program. A U.S. Navy physician specializing in drug addiction and treatment conducted a training session for Portuguese Navy physicians in 2001.

**The Road Ahead.** In the future, the United States will continue to cooperate and collaborate with the GOP to combat illicit drug trafficking and related crimes, including money laundering.

# Romania

## I. Summary

Romania is not a major source of production or cultivation of narcotics, although cultivation of hashish and some poppy fields were discovered toward the end of the year. Romania lies along a well-established route used to funnel heroin and opium from Southwest Asia to Western countries, and Romania has recently begun to serve as a source of amphetamines. Accordingly, Romania is a country of concern to the United States. Romania is also used as a diversionary transit point for South American cocaine destined for Western Europe. In 2001, Romania made some major drug seizures and the price of heroin began to rise toward the end of the year. A national plan to address drug abuse was announced. Allegations of corruption continued to damage the image of the primary drug fighting law enforcement body. Romania is a party to the 1988 UN Drug Convention.

## II. Status of Country

Romania lies along what is commonly referred to as the northern Balkan Route, and it serves as a transit country for narcotics moving from Southwest Asia, through Turkey and Bulgaria and onward toward Western Europe. In addition, a large amount of precursor chemicals transits Romania from West European countries south toward Turkey. In 2001 law enforcement officials for the first time seized laboratories producing synthetic drugs. Additionally, toward the end of the year cannabis and poppy crops were discovered for the first time. Law enforcement officials noted that a trend of increasing domestic use continued in 2001. While officials stated that heroin and marijuana were the primary drugs consumed in Romania, the use of synthetic drugs such as MDMA (ecstasy) increased among segments of the country's youth.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In October 2001 the Romanian government launched a National Program for Drug Prevention to combat a worrying trend of increased drug consumption in Romania. An inter-ministerial commission with representatives from the Ministry of the Interior, the Police Institute for the Prevention of Criminality, the Ministry of Health, the Ministry of Public Administration, the Ministry of Youth and Sports, and some NGOs was formed to supervise this program. Joint teams of police and social workers carry out educational and preventative programs against drug consumption outside the capital.

Romania is home to the Southeast European Cooperative Initiative (SECI) Organized Crime Center. The SECI Center, which became operational at the beginning of 2001, has sponsored a regional task force with Romanian participation to shut down heroin smuggling networks. In 2001, the Romanian National Police received training and technical assistance under the EU's PHARE program to combat synthetic drugs and received PHARE help in drafting legislation controlling precursor chemicals. The government submitted a chemical precursor control bill to Parliament in early November.

**Accomplishments.** Romanian courts have sentenced several drug traffickers to long sentences under the tough provisions of the narcotics law enacted in 2000, and the Romanian police are establishing an undercover drug investigation unit to take full advantage of the authority for undercover operations that the drug law provides. Romanian agencies, such as the National Police, Border Police, and Customs Administration (VAMA) continue to offer a good degree of cooperation in working with the USG. Inadequate resources and corruption remain the most significant impediments to combating narcotics trafficking in Romania.



**Law Enforcement Efforts.** In 2001 Romania significantly increased the amount of drugs confiscated, primarily due to two major hashish seizures in Constanta harbor. Romanian police cooperation with Belgian police following these seizures led to a seizure of 6.3 metric tons of hashish in Antwerp. Additionally, information provided to Tanzanian authorities following these operations led to the arrest in Tanzania of several members of a smuggling network and seizure of a hashish processing facility. Cooperation with the United States led to the dismantling of a ring smuggling cocaine from Ecuador. While a smaller amount of heroin was confiscated in 2001, after the start of military operations in Afghanistan in October, there was a dramatic rise in the street price of heroin, and Romanian police officers reported that aggressive enforcement operations were partially responsible. There was a four-fold increase in the amount of amphetamines and “club drugs,” primarily MDMA (ecstasy), confiscated in 2001 over 2000. As of September 30, almost 14 metric tons of hashish, 14.87 kilograms of heroin, 1.28 kilograms of opium, 2.47 kilograms of cocaine, and 66,552 amphetamine pills had been seized. Police raided and destroyed, for the first time in Romania, a precursor storehouse and a laboratory for production of amphetamines. Arrests through September 30 numbered 439 individuals.

Law enforcement resources dedicated to fighting narcotics in Romania are limited. The Romanian police reorganized its primary drug fighting service, the Directorate for Combating Organized Crime and Anti-Drug Operations (DCCOA) early in the year. The DCCOA was reorganized into two divisions, an organized crime division and an counternarcotics division. The counternarcotics side of the DCCOA now has some 50 officers; it now has internal squads working undercover operations, precursor chemicals, internal and external drug trafficking squads, and an analysis unit. In addition, one or two officers are assigned to each of Romania’s newly established 15 regional organized crime offices.

**Corruption.** Corruption remains a serious problem within the Romanian government. The reorganization of the DCCOA was triggered by a scandal in which the head of one of its drug squads was accused of using an informant to divert drugs for sale. Press allegations that a senior Ministry of the Interior officer used this reorganization to protect his wife from being investigated for procurement of precursor chemicals used to produce heroin bedeviled the Ministry of the Interior all year. In October the Romanian government announced an ambitious national plan to prevent corruption, but implementation had not begun by year’s end (2001-2002). Thus, it is premature to assess the impact of the plan on reducing corruption in Romania. The incentives for corruption in Romania remain high. The Ministry of the Interior did conduct an asset review of all its personnel during the year to detect illegally obtained wealth, and brought court cases against a few officers as a result.

**Agreements and Treaties.** Romania is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. An extradition treaty is in force between Romania and the United States, and Romania and the United States signed a mutual legal assistance treaty in October 2001, but it awaits ratification. Work has begun on a technical assistance agreement under which the UNDCP would provide Romania with funds for fighting narcotics trafficking and drug abuse. Romania is also working with the UNDCP to fight narcotics trafficking by sea. Romania has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Drug Flow/Transit.** Illicit narcotics from Afghanistan enter Romania primarily over land through its southern border with Bulgaria. However, drugs are also brought into the country via the Black Sea port of Constanta, as well as via the country’s international airports. Once in Romania, the drugs move either north through Hungary, or west through Yugoslavia, on their way to Western Europe. Police estimated that 80 percent of the drugs that enter Romania continue on to Western Europe, while the remaining 20 percent are consumed in-country.

**Domestic Programs (Demand Reduction).** While consumption of narcotics in Romania has historically been low, this appears to be slowly changing, and the Romanian government is becoming increasingly concerned about domestic drug consumption. Detoxification programs are offered through

some hospitals, but are very limited. These programs are hampered by a lack of resources, and when heroin prices rose during the military operations in Afghanistan late in the year desperate addicts overwhelmed them. As of September 30, 2001, only 400 individuals were registered as drug addicts in all of Romania.

### **IV. U.S. Policy Initiatives and Programs**

**Bilateral Cooperation.** In response to strong interest by the Romanian National Police and other Romanian agencies with narcotics law enforcement responsibilities, the USG has offered a wide range of training geared toward fighting narcotics, corruption, and money laundering. State Department-sponsored training in 2001 included courses that the FBI led on interview and interrogation, as well as homicide investigation. Other State Department-funded programs in 2000 were offered through the Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT). These programs included a seminar on fighting corruption. Separately, the DEA offered a course on criminal intelligence analysis to SECI Center officers and Romanian law enforcement authorities, and the U.S. Secret Service offered courses on financial crimes to SECI Center officers and Romanian law enforcement. The U.S. Customs Service, which has several representatives posted in Romania, provided training to improve border enforcement. The DEA's activities in Romania are coordinated by the DEA's regional office in Vienna. The U.S. Coast Guard conducted maritime law enforcement training under EUCOM's (European Headquarters, U.S. Army) Joint Contact Team Program (JCTP).

**The Road Ahead.** Following the reorganization of its drug efforts, Romania has put a serious emphasis on its counternarcotics efforts and cooperation with the USG. The USG believes that cooperation will continue, as the Romanian government has become increasingly concerned about domestic drug consumption. The new drug law enacted in 2000 is expected to make a noticeable difference in the country's fight against drugs over the coming year and beyond. Subject to the availability of funds, counternarcotics, money laundering, and corruption-related training will continue in 2002.

# Russia

## I. Summary

The continued increase in the flow of Afghan heroin into the country across the southern Russian border dominated drug issues in the Russian Federation in 2001. According to estimates by the Drug Control Department, as much as 99 percent of the heroin seized in 2001 originated in Afghanistan. The sharp increase in the supply of heroin has caused the price of heroin to drop sharply, which has stimulated demand to an unprecedented extent. Although approximately half the heroin seized in 2001 was destined for onward transit, Russia is now a consumer country and faces a serious drug abuse problem. The Russian Ministry of Interior (MVD) reported in October 2001 that there were approximately three million drug addicts in Russia, an increase in official estimates of 50 percent since 2000. Russian authorities consider heroin trafficking and abuse a significant threat to national security and public health. Although Russia continues to be a depressed market for cocaine, international cocaine traffickers are increasingly using Russia as a transit point for onward shipment to Europe. LSD and methamphetamine abuse is increasing across Russia. The increase in the manufacture and sale of “designer drugs” such as MDMA (“ecstasy”) is also an area of special and growing concern to Russian and international law enforcement.

In 2001 the Russian government continued to display an increasing interest in counternarcotics cooperation, and Russian law enforcement authorities deepened their bilateral investigative cooperation and intelligence sharing, particularly in the aftermath of September 11. The Putin administration declared counter-terrorism to be the most important priority of the international community at this time, and citing the relationship between terrorist funding and narcotics, declared that interrupting this cash flow was essential. The Putin administration indicated an increased interest in exploring a multi-faceted approach including demand reduction and prevention, introducing a draft national counternarcotics strategy for the first time September 28. Russia ratified the Russia-U.S. Mutual Legal Assistance Treaty (MLAT) in 2000, and following U.S. Senate advice and consent to ratification, the treaty was brought into force on January 31, 2002. Russia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Russia is a transit country for heroin and opium, most of which comes from Afghanistan and approximately half of which is destined for Europe. A small percentage reaches the United States as well. Individual criminals of Russian origin use Russia to transship cocaine, averaging in the 50-60 kilogram range per illicit shipment, to Europe and elsewhere. Russia is a small producer of cannabis, opium poppy, and ephedrine for domestic consumption, and it is a significant producer/diverter of precursor chemicals for export for the production of Afghan heroin. Production of amphetamines and synthetic drugs for domestic consumption is minor, but on the rise, and with the ready availability of precursors and sophisticated chemists, Russia may be poised to become a major producer of synthetic drugs to Europe and the United States. Russian-Israeli criminal groups are known to be involved in synthetics trafficking in the United States—Russian-based criminal groups could exploit this connection to enter the U.S. synthetic drug market as suppliers.

While the Russian economy is currently on an upswing, Russia remains a depressed market for cocaine. Russian demand for cocaine fell abruptly after the economic crash of 1998, and even at its peak it never equaled demand for heroin, which is much cheaper, more plentiful, and more easily imported. European and U.S. markets for cocaine are far more profitable than Russian markets and cocaine seized in Russia is typically in transit to Europe. While there have been seizures as large as several tons, such as that seized on a Russian-owned vessel off the coast of a European country, there were no large seizures in 2001. Russian law enforcement authorities consider cocaine trafficking a growing, but not yet major criminal threat.

Heroin trafficking continues to be the primary drug problem facing Russia. The Taliban stepped up production and export of opium and heroin into Tajikistan and Kazakhstan and on into Russia just as the economic crash of 1998 plunged Russia into a period of economic crisis. The crash resulted in a sharp drop in the standard of living for many Russians, high unemployment rates, and a decrease in the technical and financial resources available to law enforcement and drug treatment programs. Alcohol and substance abuse increased. The crisis, coupled with the widespread availability of cheap heroin, contributed to a rapid increase in serious heroin abuse and addiction, and a concomitant steep increase in HIV and AIDS. It is believed that as much as 80 percent of Russian HIV infections are related to intravenous drug use. Russian authorities resist needle exchange programs for fear of appearing to encourage heroin abuse. HIV-suppressing therapies exceed the financial capability of most Russian clinics and victims remain for the most part untreated, representing a grave concern for Russian health authorities. Certain areas in Russia are said to have the fastest growing rate of HIV infection in the world.

Given the porous nature of the border (which was an internal border only ten years ago) and the lack of technical and financial support for law enforcement, it is clear that Russia is ill-equipped to handle the growing inundation of the country with Afghan heroin. Even if half of the heroin moving in Russia finds its way into European or other markets, prices for a gram of heroin in Russia have fallen from an average U.S. \$70 in 1999 to a low in 2000 of U.S. \$10, to a post-September 11 average of U.S. \$35 per gram. After September 11 and the start of the U.S.-led bombing campaign against the Taliban in Afghanistan, Russian law enforcement reported a significant spike (up as much as 30 percent) in heroin prices and a decrease in quality/purity. By December, heroin prices had stabilized, but high purity heroin was still priced higher than before September 11. The average Russian heroin user cannot support a heroin habit without resorting to some form of criminal activity. The MVD reported that drug-related crimes increased 4.5 percent during the first nine months of 2001, and that drug-related crimes by organized crime members increased 25 percent during the same period. Clearly, Russia has a major interest in seeing poppy/heroin production in Afghanistan curtailed.

Domestic distribution of drugs in Russia is handled by the same traditional Russian criminal organizations that have long conducted other criminal operations in the various regions of Russia. Trafficking into the country is often handled by members of various ethnic groups who tend to specialize in certain categories of drugs in specific areas. Heroin is mainly imported by Afghans, Tajiks, and other Central Asians across the southern border with Kazakhstan into European Russia and western Siberia. Vietnamese and Chinese traffic heroin, opium, and ephedrine into eastern Siberia, whose inhabitants also manufacture methamphetamine in kitchen laboratories for personal use. Ukrainians traffic in cannabis, while Nigerians and some other Africans traffic mostly in heroin. Azeris, Chechens, and Tajiks dominate the heroin trafficking at the street level in northwest Russia. Russian law enforcement report that larger and more powerful organized crime groups in the country allow these groups to operate unmolested in exchange for a share of the drug profits.

### III. Country Actions Against Drugs in 2001

Until 2000 drug trafficking by Russians or through Russia was not given a high priority by Russian policy makers or law enforcement officials. Russia had little drug abuse and halting the transit of narcotics through the country was deemed a lower priority than other seemingly more critical criminal activities. Russian authorities have recognized in the last few years that drug trafficking is now a serious national security threat to Russia.

**Policy Initiatives.** The Putin administration has demonstrated that it places a high priority on law enforcement (raising salaries of all Russian police 20 percent in 2001) and on control of narcotics. This became an even more important priority in the wake of September 11 and the increased importance of depriving Afghan terrorists of their profits from the drug trade. Russian authorities have stepped up their levels of international counternarcotics cooperation in interdiction and enforcement. From the highest levels of government down, recent years have seen a marked increase in the willingness of Russian

authorities to cooperate with international counternarcotics efforts, and U.S. efforts in particular. Russian counternarcotics efforts rely heavily on law enforcement, but they have recently displayed an increased willingness to initiate cooperation and accept assistance in the areas of demand reduction and treatment as well. In this connection, in November 2001, President Bush and President Putin issued a statement of mutual interest to expand cooperation between the U.S. and Russia on efforts to stop illegal trafficking of drugs and in preventing and treating drug abuse addiction.

**Accomplishments.** In October 2000 the Russian Duma ratified the Mutual Legal Assistance Treaty (MLAT). The U.S. Senate provided its advice and consent to ratification of the MLAT on December 19, 2001. The MLAT was brought into force by exchanging instruments of ratification on January 31, 2002, thereby replacing the Mutual Legal Assistance Agreement between the United States and Russia.

**Multilateral Cooperation.** The UNODCCP (UN Office of Drug Control Crime and Counter-Narcotics) in Moscow continued to implement several important projects: “Technical Assistance in Control and Prevention of Drugs and Related Organized Crime,” which provides equipment and training for counternarcotics units in Russia; “Training Center for CIS (Confederation of Independent States) Countries at Domodedovo,” a regional project, which establishes a program for training representatives of counternarcotics units of various CIS countries in the Russian police training facility at Domodedovo in Moscow; and a project to provide equipment and training to the Russian Border Service personnel who police the Tajik-Afghan border to halt the flow of heroin before it reaches the Russian border. The UNODCCP reports that while these projects have the support of the Russian authorities being trained, Russia has not allocated any funding for continued cooperation.

**Law Enforcement Efforts.** The 1998 law on narcotics and psychotropic substances criminalized the purchase and possession of drugs and stiffened the penalties for distribution and large-scale trafficking. While this law has done nothing to discourage the growing substance abuse in Russia, it has given law enforcement a somewhat increased ability to deal with serious drug traffickers. Sentences by courts continue to be comparatively light. Many courts have been unwilling to accept evidence obtained through wiretaps or undercover work, but new provisions in the code of criminal procedure explicitly authorize courts to accept evidence obtained through clandestine surveillance, when that surveillance has been approved in advance by a court.

Limited resources seriously handicap Russian law enforcement authorities’ response to narcotics. Russian law enforcement officials and the UN estimate that the flow of Afghan heroin alone has increased fourfold in the last three years, while Russian law enforcement budgets, funding equipment procurement, have remained static, equipment has deteriorated, and veteran officers have been lost to attrition. Almost no new funding is available for equipment replacement or procurement of new technology. Funds for training are also extremely limited.

Within these limitations Russian drug control units have continued to strengthen and deepen their interagency cooperation and to reach out to other nations for bilateral and multilateral international cooperation. Russia’s multi-agency counternarcotics task force has continued to develop and improve its cooperation with other Russian enforcement forces targeted on narcotics.

Seizures of heroin rose again in 2001, with Russian Customs seizing 307 kilograms in 216 seizures as of mid-December 2001, up from 206 kilograms for 2000. Russian Border Guards reported seizing 2,400 kilograms of heroin as of the start of December 2001 (including 12 major seizures in excess of 100 kilograms each), an almost threefold increase from the 880 kilograms seized in 2000.

One of the most significant seizures occurred in July 2001, when Russian authorities seized 135 kilograms of heroin and 7.7 kilograms of marijuana concealed in a cargo of cotton on board a railcar in Astrakhan. The shipment originated in Afghanistan and was destined for Switzerland, via Tajikistan, Kazakhstan, Russia, and Ukraine. Some of the most dramatic seizure increases have taken place not in Russia, but on the Afghan-Tajik border where the Russian Federal Border Service provides assistance in cooperation with Tajik forces. According to UNODCCP figures, between January and October 2001, 6,680 kilograms

of illegal narcotics were seized, including 3,034 kilograms of heroin and 3,004 kilograms of opium. The total amount of drugs seized during this period in Tajikistan is almost double that seized during the same period in 2000. Heroin seizures increased almost three-fold, from 1.1 tons in 2000 to over three tons in 2001. Opium seizures also increased consistently from two tons in 2000 to three tons in 2001.

**Corruption.** There were no reported cases of narcotics-related corruption that facilitated the production, processing, or shipment of narcotics and psychotropic drugs and other controlled substances or the laundering proceeds of illegal drug transactions, or that discouraged the investigation or prosecution of such acts. President Putin has said that controlling corruption is a priority for his administration, but actually doing so will require a constant effort. Inadequate budgets, low salaries, and a lack of technical resources and support for Russian law enforcement authorities hamper performance, sap morale, and encourage corruption.

**Agreements and Treaties.** Russia is party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, 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. Russia is a party to the 1992 Kiev Treaty on Cooperation in Interregional Drug Investigations. Russia has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

The Annex of the U.S.-Russia Mutual Legal Assistance Agreement of 1996 specifically listed any crime associated with trafficking in illicit drugs and psychotropic substances as a basis for making a request for assistance under the agreement. It listed money laundering, government corruption, and organized crime as well. On December 19, 2001, the U.S. Senate provided its advice and consent to ratification of the Mutual Legal Assistance Treaty with Russia and the MLAT entered into force on January 31, 2002. The MLAT makes dual criminality the basis for rendering or requesting mutual legal assistance under the terms of the Treaty. The treaty may significantly enhance the mutual legal assistance process between the two states. In July 1998 the DEA and the Ministry of Internal Affairs signed a Memorandum of Understanding (MOU) on Counternarcotics Cooperation. A 1995 MOU between the Russian Federal Border Service and the U.S. Coast Guard provides for cooperation in Maritime Drug Interdiction. The U.S. Attorney General and the Director of the Federal Security Service (FSB) signed an MOU that provides for the sharing of intelligence on counternarcotics between the DEA and the FSB.

**Cultivation/Production.** Although there are no official statistics on the extent of opium cultivation in Russia, the USG has no evidence to suggest that more than 1,000 hectares of opium are cultivated. In the first six months of 2001, Russian authorities eradicated 13,506 square kilometers (6.6 tons) of wild opium and 29,820 square kilometers (40,537 kilograms) of cultivated opium. Wild cannabis is estimated to cover some 1.5 million hectares in the eastern part of the country. Russian authorities eradicated 1,283.8 tons of wild cannabis and 35,472 kilograms of cultivated cannabis from January-June 2001. Although illegal cannabis plots eradicated decreased from 1,923 plots (142,873 square kilometers) in the first two quarters of 2000 to 1,204 plots (136,365 square kilometers) during the same period in 2001, the total number of hemp plants eradicated during this period in 2001 increased dramatically to 893,154 plants from 150,753 plants in the same period of 2000. The MVD reported that throughout 2001, new zones for storing raw poppy and cannabis for drug production continued to be identified.

**Drug Flow/Transit.** Heroin from Southwest Asia flows through Central Asia, particularly Tajikistan and Kazakhstan, over the southern border into Russia, for domestic distribution and consumption and for onward shipment to Europe and, to a much lesser extent, the United States. The port city of Astrakhan and the Black Sea port of Novorossiysk are major transit points for Turkish-refined Afghan opium, and Afghan heroin into Russia. Vast amounts of daily sea traffic, consisting of passengers, automobiles on ferries, and bulk goods in trucks are used to conceal heroin into Russia. All routes mentioned above are also used in reverse to smuggle multi-ton quantities of the heroin precursor chemical, acetic anhydride, to

the clandestine laboratories producing Afghan and Turkish heroin. The lack of border controls with China and Mongolia facilitates smuggling, including drug trafficking, through that region. In the east, the Chinese continue to import the precursor ephedrine for the domestic production of methamphetamine in kitchen laboratories in quantities for personal use. Cocaine traffickers also route Colombian cocaine for transshipment to Europe and elsewhere through Russian seaports and airports.

**Domestic Programs (Demand Reduction).** In 2001 Russian authorities continued to explore possible cooperation and assistance in the area of drug abuse prevention and treatment. Russian authorities have approved a comprehensive counternarcotics strategy that would combine education, health, and law enforcement efforts. Russian law enforcement authorities also have come to support the idea that demand reduction should complement law enforcement efforts to reduce supply. President Putin and Security Council Secretary Rushailo have both stated that addiction should be considered and treated as a disease, rather than prosecuted, although they strongly opposed the legalization of “light” narcotics. The 1998 Narcotics Law provides for compulsory treatment of drug abusers who come to the attention of the authorities. The law, however, also restricts drug abuse treatment to government facilities.

### IV. U.S. Policy Initiatives and Programs

**U.S. Policy Objectives.** The principal U.S. goal is to help strengthen Russia’s counternarcotics law enforcement capacity to help meet the challenges of international drug trafficking into and across Russia. The United States also aims to help strengthen and develop Russian law enforcement personnel.

**Bilateral Cooperation.** In 2001 the U.S. Department of State’s Bureau for International Narcotics and Law Enforcement Affairs provided counternarcotics, anticorruption, and money laundering training conducted by five U.S. agencies, including the DEA, to over 200 trainees. The trainees were primarily law enforcement personnel in the Ministry of Internal Affairs (MVD), the Federal Security Service (FSB), and Customs, but programs also reached out to legislators, court officials, NGO’s, and health professionals among others in demand reduction and drug abuse treatment. The program also included technical advisors working on institutional change. The United States supported other programs in the region, including community police programs that contain a significant counternarcotics component, and funded several NGO programs that focus on this aspect of community relations.

A joint Russian-U.S. controlled delivery in 2000 proved to be a significant confidence-building measure for Russian-U.S. law enforcement. It strengthened and deepened our cooperation resulting in a greater number of joint investigations and a freer sharing of counternarcotics intelligence in 2001. This increased even more dramatically in the aftermath of September 11.

**The Road Ahead.** Russia gives an increasingly high priority to counternarcotics efforts and has indicated a desire to deepen and strengthen its cooperation with the United States and other bilateral and multilateral international counternarcotics efforts. We will encourage Russia to implement its recently drafted comprehensive, long-term national strategy against drugs, which should include measures of effectiveness and be embedded in a national budget. U.S. law enforcement officials and their Russian counterparts will develop multidisciplinary sustainable law enforcement assistance projects that combine equipment, technical assistance, and expert advisors in an effort to develop and strengthen the investigative, enforcement, and interdiction capabilities of law enforcement units responsible for drug control in Russia. The United States will encourage Russia to sign a letter of agreement, under which the United States will provide law enforcement and narcotics assistance.

# Slovak Republic

## I. Summary

Slovakia lies at the crossroads of two major drug transit zones, the traditional east-west routes from Ukraine and the Russian Federation and the historic “Balkan Route,” which runs from Southwest Asia to Turkey and on to Germany, France, and other Western European countries. As it has in the past two years, the Government of the Slovak Republic (GOSR) funded the fight against narcotics at slightly higher levels in 2001 than it had during the previous year. Domestic drug use appears to have been on the rise again in 2001. 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 smuggling illicit drugs. The GOSR continues to concentrate on east-west smuggling from Ukraine and Russia. Enforcement officials say that Russian organized crime groups have continued to be active in heroin trafficking this year. Slovak authorities are also placing increased emphasis on the Balkan Route and the suspected Albanian criminal organizations that use this route. Albanian traffickers cooperate with criminal organizations in neighboring countries to move heroin to market.

The influence of organized crime on drug sales and use continued to increase in 2001. According to the Slovak National Drug Squad, Albanian organized crime groups are responsible for 90 percent of all drug trafficking in Slovakia. Slovak police think organized crime groups have more resources and are masterminding increasingly complex operations. The Slovak police have cracked some organized crime cases, but they admit that they are still unsure of the full extent of the problem. The GOSR has modestly increased funding for law enforcement efforts aimed at combating illegal narcotics. Slovakia does not have laws that specifically control precursor chemicals involved in the production of illegal narcotics, but is also not a major source of diverted chemicals. Authorities do not believe that diversion of these chemicals is a problem in Slovakia.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Fighting organized crime and corruption is among the government’s top priorities. While cooperation with other nations in the fight against narcotics trafficking is not equally effective in all branches of the government, the GOSR has cooperated closely on a number of cases of international drug trafficking. Of particular note is the improving cooperation between the Slovak Customs Directorate, neighboring states, and the United States. Slovak customs officers tend to be very professional and have been granted a better budget. With the passage of a new Customs Act, scheduled to go into effect early next year, the authority of customs officials will be broadened, further strengthening border enforcement against drug trafficking.

**Accomplishments.** The current government, elected in 1998, has largely completed a reorganization of the police and National Drug Service. The Slovak Customs Directorate has sought to share more authority with the police in investigating cases of narcotics trafficking, and this will be facilitated by implementation of the Customs Act.

**Law Enforcement Efforts.** The number of attempts to smuggle illegal narcotics in 2001 appears to have increased compared with 2000. The majority of those apprehended were not Slovak citizens. The Border Service reports that, as was the case last year, most seizures at the borders were for marijuana trafficking.

**Corruption.** The current government is trying to reduce corruption through legal reform and increased education. While observers believe that some progress has been made, most believe corruption is still a



serious problem, particularly at the lower levels in the law enforcement agencies. This corruption affects enforcement of applicable counternarcotics laws. The GOSR continues to implement an anticorruption program for government employees, which embraces all ministries.

**Agreements and Treaties.** The Slovak Republic is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. The bilateral extradition treaty between Czechoslovakia and the United States has continued in force between the United States and the Slovak Republic. The Slovak Republic signed the UN Convention against Transnational Organized Crime in December 2000 and signed the Protocol to Prevent, Suppress and Punish Trafficking in Persons and the Protocol against the Smuggling of Migrants in November 2001.

**Cultivation/Production.** Indications are that small amounts of marijuana continue to be grown in all regions of the country, but that it is for domestic consumption only. It does not appear that cocaine or heroin is being produced within Slovakia. While some use of MDMA (ecstasy) among Slovaks has been reported, there have been no reports of its production within the country.

**Drug Flow/Transit.** The shared border with Hungary and Ukraine was the site of the greatest number of attempts to enter Slovakia with illegal substances. The greatest number of attempts to smuggle substances out of Slovakia was noted at the Czech and Austrian borders.

**Domestic Programs (Demand Reduction).** The Slovakian government supports efforts to discourage drug abuse through education in the schools. Treatment of drug abusers is also provided by the National Health Service.

#### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** As in prior years, Slovak enforcement officials participated in several Department of Justice courses in 2001, funded by the U.S. Department of State. These classes were designed to increase the resistance to corruptive influences at the working level, and to improve counternarcotics and anti-organized crime detection/investigative skills.

**The Road Ahead.** Through bilateral cooperation, the United States will continue to encourage the GOSR to maintain its tough stance on drug interdiction and to expand its enforcement and prevention capabilities by modernizing responsible agencies.

# Slovenia

## I. Summary

Slovenia is neither a major drug producer nor a major transit country for illicit narcotics. The Government of Slovenia (GOS) is aware that Slovenia's borders with EU countries make it an attractive potential transit country for drug smugglers, and it continues to pursue active counternarcotics policies. Slovenia's goals of attaining EU membership in 2003 and full Schengen membership in 2005 resulted in an intensive focus on border controls in 2001. As a successor state to the Socialist Federal Republic of Yugoslavia, Slovenia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Slovenian authorities believe that its borders with Italy, Austria, Hungary, and Croatia and its short Adriatic coastline make Slovenia a potential target for Albanian, Turkish, and Italian criminal organizations trying to smuggle heroin into Western Europe via the "Balkan Route." Slovenia's main cargo port, Koper, located on the North Adriatic, is also viewed as a potential transit point for South American cocaine and North African cannabis destined for Western Europe. Drug abuse is not yet a major problem in Slovenia, although authorities keep a wary eye on heroin abuse which continues to increase.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives/Accomplishments.** The GOS continued to make counternarcotics a priority for all levels of law enforcement in 2001. Cooperation with officials from the United States and from EU member states to improve interdiction has also continued. Slovenia is a participant in the SECI Regional Center for Combating Transborder Crime and participates in the EU's PHARE Multi-Beneficiary Drug Program.

**Law Enforcement Efforts.** Active counternarcotics efforts among Slovenian law enforcement authorities led to a decrease in narcotics-related criminal activity in 2001 and a commensurate decrease in drug seizures. The most striking success was a seizure in eastern Slovenia of nearly ten tons of acetic anhydride acid (which police estimated could have been used to produce nearly four tons of heroin) in transit from Italy to an undisclosed location in Eastern Europe. Additionally, 73 kilograms of heroin were seized in two drug operations on the Slovenian-Croatian border in August 2001. Cooperation with U.S. law enforcement officials has been excellent, particularly with regard to ongoing joint investigations.

Law enforcement agencies seized 1,773 MDMA (ecstasy) tablets in 2001, compared with 26,804 ecstasy tablets in 2000 and 1,749 tablets in 1999. In 2001, 88.9 kilograms of heroin were seized, compared with 394.8 kilograms of heroin in 2000 and 32.2 kilograms in 1999. In addition, 170.56 kilograms of cannabis were seized in 2001, compared with 3,431 kilograms of cannabis in 2000 and 313.8 kilograms in 1999. One exceptionally large seizure in 2000 explains the departure from the normal range of cannabis seizures in Slovenia.

**Corruption.** Slovenia does not, as a matter of government policy, 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 activities. No senior Slovenian official engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug activities. However, corruption among low-paid police and border control officials certainly facilitates some narcotics trafficking.

**Agreements and Treaties.** Slovenia 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. The 1902 extradition treaty between the United States and Yugoslavia remains in force between the United States and Slovenia. Slovenia signed the UN Convention against Transnational Organized Crime in December 2000 and in November 2001 signed the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants, and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms.

#### **IV. U.S. Policy Initiatives and Programs**

**Bilateral Cooperation.** Slovenian law enforcement authorities have been willing and capable partners in several ongoing U.S. investigations. The U.S. supported training of some Slovenian law enforcement officials during 2001; the U.S. provided no commodity or program assistance.

**The Road Ahead.** Based on the high quality of past cooperation, we expect to continue joint U.S.-Slovenian law enforcement investigations in 2002. Subject to the availability of funds, the United States plans to provide specialized counternarcotics and other law enforcement training to Slovenian authorities in 2002, as necessary.

# Spain

## I. Summary

Spain is an important transit country to Europe for cocaine smuggled from South America and hashish from Morocco, and is increasingly a transshipment point for MDMA (“ecstasy”) going to the United States. Evidence available to date does not suggest that ecstasy that transits Spain en route to the United States has a significant effect on the United States. Spain remains active in counternarcotics efforts globally, especially in Latin America. After terrorism, drug trafficking is Spain’s highest law enforcement priority. Spain is a party to the 1988 UN Drug Convention.

## II. Status of Country

Spanish law enforcement agencies seized a record amount of cocaine during the year. Trends indicate that Spain is an important gateway for cocaine shipments from the Andean countries into Europe. Spain is increasingly a transit point to the United States for ecstasy from the Netherlands. Spanish police continue to seize large amounts of mainly Moroccan hashish, much of which is intended for other parts of Europe. The majority of heroin that arrives in Spain is transported via the Balkan route from Turkey. Spanish law enforcement authorities made their first seizure of Colombian heroin in 2001.

No coca is grown in Spain, and production of cannabis and opium is minimal. Illicit refining and manufacturing of illicit drugs in Spain is minimal. However, small-scale laboratories that convert cocaine base to cocaine hydrochloride are discovered and confiscated each year. Spain has a pharmaceutical industry that produces precursor chemicals. Under the National Drug Plan (PNSD), Spain effectively controls shipments of precursor chemicals from the point of origin to destination.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Spanish policy on drugs is directed by the national drug strategy, which is in effect from 2000 to 2008. The strategy, approved in 1999, amplified the scope of law enforcement activities, such as permitting sale of seized assets in advance of a conviction and allowing law enforcement authorities to use informers. The strategy also outlined a system to integrate drug addicts back into society. The strategy targets money laundering and illicit commerce in chemical precursors and calls for closer counternarcotics cooperation with other European and Latin American countries. The national drug strategy is slated for comprehensive reviews of achievement in 2003 and 2008.

The National Central Drug Unit coordinates counternarcotics operations among various government agencies, including the security forces and the Customs Service, and appears to function well.

Spain is a member of the UNDCP major donors group and the Dublin Group of Countries Coordinating Narcotics Assistance. Spain chairs the regional Dublin Group for Central America and Mexico. Spain also funds programs through the Organization of American States’ Inter-American Drug Abuse Control Commission. Spain has pledged \$100 million to support Plan Colombia and has targeted institutional strengthening of police and judicial forces, alternative development, and demand reduction. Spain sponsors numerous training courses for Latin American police and judicial authorities. With funding from the European Commission, the PNSD is advising several EU candidate countries on counternarcotics legislation and practices.

**Law Enforcement Efforts.** Spanish law enforcement seized a record amount of cocaine during 2001, and continued to seize large amounts of hashish. Spanish cocaine seizures, over 25 metric tons through August, may account for half or more of the total amount seized in Europe. A few specific interdictions accounted for much of the total. The Civil Guard seized 3,100 kilograms in the northern port of Bilbao in

July. In August, the National Police seized nearly 4,500 kilograms, in an operation in Barcelona and Valencia. In a DEA-assisted operation that resulted in the arrest of one of Spain's major traffickers, the National Police also seized 5,000 kilograms from a cargo ship in the Atlantic.

**Agreements and Treaties.** Spain is a party to the 1988 UN Drug Convention, and all of the Convention's articles are applied in Spain. Spain is also a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention on Narcotic Drugs. Spain is also a party to the 1990 Strasbourg Convention. Spain has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. Extradition between the United States and Spain is governed by a 1970 extradition treaty and its three supplements. The U.S.-Spain Mutual Legal Assistance Treaty has been in force since 1993. The United States and Spain also have signed a customs mutual assistance agreement. The United States and Spain entered into an arrangement on the exchange of information regarding narcotics trafficking in 1928, which remains in force. A bilateral agreement between the United States and Spain on cooperation to reduce the demand for narcotic drugs entered into force in 1993.

Spain is a party to European conventions on mutual assistance in criminal matters, extradition, the transfer of proceedings in criminal matters and the international validity of criminal judgements. Spain has mutual legal assistance treaties or bilateral counternarcotics agreements with most countries in Latin America, as well as with Morocco, Israel, and Turkey.

**Cultivation/Production.** Coca leaf is not cultivated in Spain, and cannabis is grown in insignificant quantities. Opium poppy is cultivated under strictly regulated conditions for research. Refining and manufacturing of cocaine and synthetic drugs is minimal, with some small-scale laboratories converting cocaine base to cocaine hydrochloride.

**Drug Flow/Transit.** Spain remains a significant gateway to Europe for Andean cocaine and North African hashish. The amount of cocaine seized by Spanish authorities in 2001 is thought to be considerably more than the domestic market could absorb. Spain is increasingly a transit point to the United States for ecstasy and other synthetic drugs produced mainly in the Netherlands. The number of couriers carrying ecstasy from Spain arrested upon entry to the United States increased. Some of the heroin smuggled into Spain may continue to other European countries. Spanish authorities made their first seizure of Colombian heroin in 2001.

**Domestic Programs (Demand Reduction).** The Spanish national drug strategy identifies prevention as its principal priority. In that regard, PNSD continued its publicity efforts targeting Spanish youth. Spain's autonomous local communities provide treatment programs for drug addicts, including methadone programs and needle exchanges. Prison rehabilitation programs also distribute methadone.

**Corruption.** There is no evidence of corruption among senior government officials or their involvement in the drug trade or the laundering of the proceeds of illegal drug transactions; however, there were some arrests of individual law enforcement officers for involvement in trafficking. The Spanish government does not as a matter of policy or practice 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.

#### IV. U.S. Policy Initiatives and Programs

U.S. goals and objectives for Spain are focused on maintaining and increasing the current excellent bilateral and multilateral cooperation in law enforcement and demand reduction. The United States seeks to promote intensified contacts between officials of both countries involved in counternarcotics and related fields. Latin America remains an important area for counternarcotics cooperation.

# Sweden

## I. Summary

Sweden is not a significant illicit drug producing, trafficking, or transit country. Swedish drug policy still envisions zero tolerance and seeks a drug-free society in the long run.

In January 2002, the Minister for Health and Social Affairs announced the GOS's 2002-2005 National Action Plan regarding narcotics, and made public his choice for Special Coordinator for Drug Issues in Sweden (similar to the U.S. Drug Czar). The new Coordinator, Bjorn Fries, is a Social Democrat and a Municipal Commissioner from southern Sweden with experience countering racism and neo-nazism among the young. The Coordinator will implement the new plan, coordinate efforts of the various departments, agencies, municipalities, and NGOs, and report back to the Minister. A high-ranking law enforcement representative, NGOs, and the media immediately criticized the government's plans as too vague, with too few clear goals and lacking concrete action recommendations. An Alternative Commission published detailed counterproposals to those incorporated in the government's report.

According to law enforcement sources, though more drugs are being seized, more drugs are also available virtually everywhere in Sweden. Greater availability of higher-purity amphetamines, the Swedish drug of choice, and lower prices have characterized the last few years.

Swedish authorities remain concerned about the entire drug scene, but in particular, continued abuse of brown (smoking) heroin in Balkan, Middle East, and other immigrant communities. Attitudes have gradually changed and Swedish youth now are more willing to experiment with drugs. Some young people use Rohypnol (the "date rape drug") or MDMA ("ecstasy"). Drugs from Eastern Europe and the New Independent States (NIS) are a growing problem for Swedish law enforcement. In 2001, Sweden continued its cooperation in international counternarcotics policy coordination fora, including the UN, the Dublin Group, the Pompidou Group, and the EU. Along with the Baltic nations, Sweden combats drug trafficking and money laundering vigorously. Sweden is a party to the 1988 UN Drug Convention.

## II. Status of Country

Unlike some European countries, Sweden does not tolerate the use of even "soft" drugs. However, increased travel, study abroad, and broader Internet use have increased young people's exposure to drugs and to the liberal attitudes toward drugs of other nations. In this land of consensus, a 2001 poll showed that 94 percent of Swedes over 15 believe that individuals over 18 should be legally prohibited from smoking hashish or marijuana. Another poll in 2001, by Temo for the daily Dagens Nyheter, shows that 96 percent of Sweden's population supports a restrictive drug policy. According to the Swedish Council for Information on Alcohol and Other Drugs (CAN), there has been a gradual increase in the number of students who have tried narcotics. In 1989, three percent of Sweden's 16-year-olds had tried drugs, and in 2001 the figure was ten percent for boys and nine percent for girls.

Cannabis and amphetamines are still the most common drugs in Sweden. Police report that indoor cultivation of cannabis remains small scale. The price of brown heroin went up in late 2001. Brown heroin seems to be popular among immigrant youth. The Stockholm Police estimate that 80-90 percent of the heroin traffickers in Stockholm are of immigrant background. Some young people use ecstasy. The media warn of the dangers of GHB (Gamma-Hydroxy-Butyrate), which the GOS now classifies as a narcotic drug. Seizures indicate some Swedes still use psilocybin.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The GOS aims to reduce the number of new drug abusers, to motivate more drug abusers to quit, and to diminish the supply of narcotics.

Swedish customs and police officials continue to train other Baltic nations in countering drug trafficking, in intelligence work, in investigative methods, and in methods to identify drug abusers. They have projects in the Baltic nations, Poland, and the St. Petersburg and Kaliningrad areas of Russia, which advance forensic science, fight against illegal migration and narcotics trafficking, create witness protection programs, and counter organized crime. The GOS also participates in the Nordic-Baltic Police Academy.

In 2001, Denmark assumed from Sweden the chairmanship of the Task Force on Organized Crime in the Baltic Sea Region. The Task Force's mandate has been prolonged to 2004. Denmark in 2001 hosted a seminar on the increasing incidence of ecstasy use. In addition, there have been two meetings of the Amphetamine Project in the eastern Baltic Sea region, which uses a Warsaw forensic laboratory to profile amphetamines. Examples of operational activities are a project to make it possible for Baltic enforcement officials to observe controlled deliveries of narcotics, and "Operation Small Aircraft" aimed at detecting smuggling via small airports. (For more information on all the expert groups, see <[www.balticseataaskforce.dk](http://www.balticseataaskforce.dk)>.) The bilateral Polish-Swedish project called "Sigismund" brings customs and police officers together to work to identify manufacturers and smugglers of amphetamines.

Sweden participates in a number of international fora, including the UN Commission on Narcotic Drugs, the UNDCP, the Dublin Group, and the Pompidou Group. During 2001, Sweden continued actively to promote the improvement of the multilateral counternarcotics activities of UNDCP and to stress preventive work. Sweden's contributions to the UNDCP were about U.S. \$3.5 million in both 1999 and 2000, and U.S. \$3.7 million in 2001.

**Accomplishments.** The Swedish International Development Authority (SIDA), allocated about U.S. \$1 million in 2000 for multilateral and bilateral UN Normative Instruments Projects against drugs and tobacco, primarily in Africa and to a lesser extent in Asia. In 2001, it allocated U.S. \$1.2 million for these projects; the funding level should remain the same in 2002. Sweden's contribution to the UN World Health Organization's substance abuse program was about U.S. \$200,000 per year in 2000 and 2001, and should be the same in 2002.

The National Narcotics Commission concluded its work in 2001, producing broad-based evaluation reports on drug policy, and proposing ways to strengthen the counternarcotics effort. Many ideas later appeared in the GOS's January 2002 National Action Plan. The plan allocates U.S. \$31.5 million over three years for anti-drug efforts in Sweden. Of this sum, about a third is to go to rehabilitation of inmates, staff training, and research. The goal is to offer all drug-abusing inmates care and treatment. The remainder will be distributed to the 289 municipalities for counternarcotics projects.

Since 1999 it has been a crime to drive under the influence of narcotics or certain prescription drugs legally described as substances with "dependence-creating qualities or Euphoria-creating effects."

**Agreements and Treaties.** Sweden is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Sweden signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants in December 2000.

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, the Czech Republic, and Slovakia. Through the EU Sweden has entered into agreements with several other nations regarding mutual assistance in customs matters, including drugs.

Sweden cooperates with the United States in extradition matters under a 1961 convention and a 1983 supplement. In December 2001 Sweden and the United States signed a mutual legal assistance treaty.

As EU President, Sweden in the spring of 2001 placed a high priority on counternarcotics efforts, especially illegal production of narcotics, preventive measures, and drug problems in the EU candidate nations. Sweden is a driving force behind implementing the 2000-2004 EU Action Plan on Drugs. In late 2000, Sweden won support for its formal proposal to the EU Council for two Council decisions against synthetic drugs in Europe, one regarding the establishment of a system of special forensic profiling of synthetic drugs, and one concerning a transmission system of drug samples within the EU. In addition to these "CASE initiatives," Sweden successfully invited all member states to join a four-year operational pilot program to profile seized amphetamines. All member states agreed to participate. The Forensic Laboratory in Linköping, Sweden, performs analyses, and Europol coordinates the law enforcement intelligence aspect.

**Law Enforcement.** Swedish law enforcement authorities are very effective.

In May 2001, there was a major seizure (16 kilograms) of cocaine in Gothenburg Harbor aboard a banana boat from Colombia via Costa Rica. In July 2001, five kilograms of cocaine were seized on a boat, which arrived in Koping harbor from Ecuador via Bremerhaven.

In 2001, Swedish customs authorities and police seized 113,500 tablets of Rohypnol in 904 seizures, including: 86,000 tablets, possibly from Lithuania, in August 2001; and 25,000 tablets from Bulgaria in a car crossing the Oresund bridge linking Denmark and Sweden in October 2001.

In May 2001, the Swedish Medical Products Agency decided to change Rohypnol's classification to the more restrictive Schedule 2.

No major illegal laboratories were detected in Sweden in 2001.

In 2001, Swedish police and customs drug liaison officers were posted in St. Petersburg, Bangkok, Athens, The Hague, London, Warsaw, Tallinn, Riga, Berlin, Budapest, Moscow, and Amman. Sweden has both a customs and a police officer in Europol in The Hague. There are two Swedish policemen at Interpol's Coordination Center in Lyon.

Swedish counterparts cooperated with the DEA in 2001 in investigating a case, which resulted in dismantling an ecstasy laboratory in California and seizing cash and precursor chemicals.

**Corruption.** Corruption is practically non-existent in Sweden. Anticorruption laws and transparency effectively deter public officials from engaging in the illicit production or distribution of drugs, or from involvement in money laundering.

**Cultivation/Production.** Illicit drugs are not cultivated or produced in significant amounts in Sweden, but there is some small cultivation of cannabis in private homes, using seeds bought via the Internet.

**Drug Flow/Transit.** In 2001, Sweden remained a destination for synthetic drugs from Poland entering through the Netherlands, Germany, and Denmark. Drugs enter the country concealed in commercial goods, by mail, by air, by ferry, and by truck over the new Oresund bridge linking Denmark to Sweden. Poland was the source of approximately half of all amphetamines seized in 2001; lesser amounts originated in the Netherlands, Estonia, and Lithuania. Pakistani brown heroin reportedly is smuggled in by ethnic Albanian crime groups through the former Yugoslavia, the Czech Republic, or Slovakia, and then via Germany and Denmark, and by ferry or over the new Oresund bridge to Sweden.

Cocaine continues to be smuggled into Sweden most often by air passengers from South America, via EU airports, mainly London, Frankfurt, and Paris. Reportedly, criminal groups from Eastern Europe are also involved.

Sweden is not a major source of precursor chemicals for producing illicit drugs. Sweden's precursor chemical controls comply with the goals of the 1988 UN Drug Convention.

In 2001, law enforcement officials in Sweden did not encounter any drugs intended for the United States.



**Domestic Programs (Demand Reduction).** Since 2001, the National Institute of Public Health has a new role in Sweden's public health efforts. It assists Sweden's 289 municipalities in tracking the extent of drug abuse. The municipalities now have responsibility for providing compulsory drug education in schools.

Several NGOs are devoted to drug abuse prevention and public information programs. Under Swedish law, individuals who abuse drugs can be sentenced to drug treatment.

"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. Its policy is based on the UN conventions on drugs and the UN Convention on the Rights of the Child. The alliance maintains its secretariat in Stockholm. In September 1999, ECAD opened its first regional office in St. Petersburg and in 2001 it opened an office in Riga. The organization cooperates with various counternarcotics organizations in the United States, including National Families in Action and Drug Watch International, and is networking with Latin America, Asia, and Australia. At present, 260 cities and municipalities in 30 European nations are members of ECAD.

#### **IV. U.S. Policy Initiatives and Programs**

**U.S. Policy Initiatives.** The United States has sought to engage with the Swedes and the Baltic Sea Task Force on Organized Crime, and coordinates with the latter through the representatives of the U.S. Justice Department in Brussels.

**Bilateral Cooperation.** Swedish cooperation with U.S. law enforcement authorities continues to be excellent. DEA representatives, stationed abroad in many nations, continue to cooperate very well with Nordic customs and police liaison officers posted abroad. The DEA's office in Copenhagen has an outstanding relationship with law enforcement officers in Sweden.

**The Road Ahead.** The United States looks forward to continuing its already good counternarcotics cooperation with Sweden, particularly in the Nordic-Baltic context and in the former Soviet Union. The United States will pursue enhanced cooperation with the Baltic Sea Task Force on Organized Crime and with Sweden through the EU.

# Switzerland

## I. Summary

Switzerland plays a role as both a consumer market and transit route for illicit narcotics, but it is not a significant producer of illicit narcotics. Heroin use was down slightly during 2001, while the use of other drugs, particularly cannabis, increased. The Swiss public continues to strongly support the government's four-pillar counternarcotics policy, highlighting prevention and education, treatment, harm reduction, and law enforcement. A new drug bill continues its way through the parliament, aimed at decriminalizing cannabis use and concentrating enforcement efforts against other drugs. Although the Swiss government has delayed ratification of the 1988 UN Drug Convention until the revised narcotics legislation has passed, it adheres to the Convention in practice.

## II. Status of Country

In a country of approximately seven million people, about half a million are thought to use cannabis regularly. Roughly 30,000 people are addicted to heroin and/or cocaine, and more than 7.5 percent of the population use a narcotic substance regularly in Switzerland. While the use of heroin has stabilized and even shown a slight decrease in recent years, the use of cannabis and synthetic drugs, especially MDMA (ecstasy), has increased sharply. Police are also concerned about the continuing trend by casual users to mix cannabis and other amphetamine-type stimulants (ATS) or "Thai pills," often at all-night dance raves, when dehydration and physical exhaustion can complicate a person's reaction to drugs. To cope with a growing number of tragic cases where young people have consumed dangerous unknown substances, mobile labs have been made available to analyze drugs for buyers on the spot without police interference.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Switzerland continued to pursue its campaign against narcotics, which is based on a "Four-Pillar" program introduced in 1991. The program hinges on prevention and demand reduction through education, treatment, harm reduction, and law enforcement focusing on fighting hard drugs.

Parliament continued to consider a new drug bill aimed at decriminalizing cannabis use and concentrating enforcement efforts against other drugs. The full spectrum of political parties supports the bill to one degree or another, except for the conservative Swiss Peoples Party (SVP), which opposes the proposal outright.

The new law is designed to regulate the significant "gray market" for hemp products by limiting the number of retail outlets and permitting sales only to adults residing in Switzerland. Prices for hemp farmers and distributors also would be regulated and authorities would limit the acreage under cannabis cultivation and work to prevent drug exports. The bill is expected to pass during 2002.

Beginning January 1, 2002, jurisdiction for all cases involving international drug trafficking will shift from the cantons to the federal prosecutor. In addition, a new judiciary police force will be set up and 25 investigation judges will be hired.

Further controls on narcotic and psychotropic substances take effect on January 1, 2002, after which it will become illegal to advertise products that contain narcotic or other psychotropic substances without government certification. Violators who put human lives at risk could face fines up to U.S. \$121,000 or imprisonment.

**Accomplishments.** Swiss drug control authorities say that therapy and treatment programs have improved the physical and mental well being of many addicts and reduced incidents of drug-related crime.

The total number of cocaine and heroin addicts in Switzerland has stabilized at roughly 30,000 in recent years. Swiss officials credit needle exchange programs with reducing drug-related AIDS and hepatitis. Drug-related mortality increased from 181 deaths in 1999 to 205 in 2000, the most recent year for which information is available. Of these, 152 persons were over 27 years old. The average age of newcomers into the heroin treatment program is 32.6 years.

**Law Enforcement Efforts.** Cannabis seizures increased dramatically from 8,000 kilograms in 1999 to 18,000 kilograms in 2000. (Available information on seizure rates for 2001 is only preliminary.) The number of narcotics apprehensions during 2000 increased slightly to 46,558 (from 44,307 in 1999) but wide disparities among cantons exist. Apprehensions increased 23.9 percent for cannabis, 57.5 percent for amphetamines, and 77.8 percent for other hallucinogens, and they decreased 12.4 percent for cocaine and 12.7 percent for heroin. Police do not believe the drop in heroin and cocaine arrests indicate any significant change in usage. Approximately 81 percent of the offenses reported were for consumption.

Preliminary information on seizures of cocaine and heroin for year 2001 indicates that quantities will be below 2000. Police sources believe the decrease is due to traffickers deliberately transporting and stockpiling smaller amounts to avoid large seizures. According to Swiss law enforcement authorities, foreigners play a primary role in the Swiss drug scene, especially in distribution. During 2000, 2,353 out of 2,460 persons arrested were non-Swiss. While West Africans dominate cocaine trafficking, Kosovar Albanians control the Swiss heroin market.

On August 14, 2001, police sources reported that police dismantled a network responsible for trafficking Thai pills and arrested 102 persons during the operation. Among them were the kingpins operating out of Switzerland. A total of 450,000 pills were seized. Furthermore, investigators have concluded that trafficking of Thai pills is linked closely to trafficking in women. In the months after the seizure, there was mounting evidence suggesting that a highly organized drug network was responsible for trafficking of Thai pills in Switzerland. Efforts continue to work closely with Thai enforcement to dismantle these trafficking organizations.

Police sources report that customs officials seized no less than 1,091 kilograms of various drugs, in addition to 67,000 Thai pills. In May 2001, 33 persons originating from Kosovo and Albania were arrested in Vaud and 12 kilograms of heroin were seized.

A recent police raid in Valais seized 50 tons of hemp at Valchanvre, a plantation facility owned by a long-time proponent of the decriminalization of "soft" drugs. Police sources said that the hemp plants seized contained 40 percent THC, well above the legal 0.3 percent, and could be valued at U.S. \$24.2 million if sold through hemp shops. Both the owner and an accomplice of the Valchanvre company have been arrested. The owner could face a 16-month prison sentence for repeated offences. He said he would start a hunger strike in protest.

**Corruption.** There are no indications of narcotics-related corruption among Swiss judicial, administrative, or law enforcement officials.

**Agreements and Treaties.** Switzerland and the United States cooperate in law enforcement matters through bilateral extradition and mutual legal assistance treaties. An agreement for the exchange of information regarding drug trafficking entered into force between Switzerland and the United States in 1929.

Switzerland's membership in the UN Commission on Narcotic Drugs has expired on December 31, 2001 and has not been renewed. New elections to the Commission will take place in 2005. Switzerland is a major donor to the UNDCP and works closely with the International Narcotics Control Board (INCB), the World Health Organization (WHO), and the Council of Europe's Cooperative Group to Combat Drug Abuse and Illicit Drug Trafficking (Pompidou Group). Switzerland adheres to the 1988 UN Drug Convention in practice and has adopted legal instruments to implement its provisions. Formal ratification, however, is delayed until revisions to the narcotics law are completed. Switzerland is a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the

1971 Convention on Psychotropic Substances. In December 2000, Switzerland signed the UN Convention against Transnational Organized Crime. The government intends to conform national law to the recommendations of the Chemical Action Task Force (CATF) and new EU regulations.

**Cultivation/Production.** Police estimate that approximately 200 tons of hemp were harvested in Switzerland during 2000. Easily satisfying domestic demand, Swiss hemp is also exported, primarily to neighboring countries. The existing Swiss narcotics law permits the cultivation of hemp if the harvest is not destined for narcotics use. Government subsidies are available to farmers growing industrial hemp with THC levels below 0.3 percent. Illicit production of high THC-content hemp is increasing, but exact figures are not available, although police estimated production during 1999 at 300 tons. Police have also expressed concern over the increase in domestic production of ecstasy and other synthetic drugs.

**Drug Flow/Transit.** Switzerland is both a transit country for drugs destined for other European countries and a destination for narcotics deliveries, especially heroin and cocaine. Drug traffickers often smuggle narcotics through the Zurich airport.

**Domestic Programs (Demand Reduction).** Switzerland focuses heavily on prevention and early intervention to prevent casual users from developing a drug addiction. Youth programs to discourage drug use cost \$6 million annually, according to the Federal Health Office (FHO). On February 23, 2001, the Swiss government hosted an international conference on heroin-assisted treatment which attracted government representatives, researchers, and field experts from over 15 countries. The goal of the conference was to exchange knowledge concerning this new treatment option for heavily addicted persons and to discuss the need and possibilities of creating a permanent pool to exchange knowledge and research results on heroin assisted treatments.

According to the FHO's August 2001 report on the Heroin Prescription Program, authorities dispensed 155 kilograms of heroin during calendar year 2000, compared to 148 kilograms in 1999. According to the report, 80 percent of this (or 124.5 kilograms) was for injection and the rest was in tablet form. Two hundred kilograms were imported (the stored amount is generally larger than actually required to prevent program disruption through delivery or harvest fluctuations). The FHO also reported that in 2000, 1,038 addicts were enrolled in the Heroin Prescription Program, nearly three-quarters of whom were male. The number of specialized treatment centers increased from 16 in 1999 to 20 during 2000 but the FHO reported that these treatment centers could only accommodate four percent of the total drug addict population. To prepare the report, the FHO reviewed all patients who had been in treatment for at least two years. The FHO found that their physical and mental well being, social conduct, and consumption habits had improved significantly. Of the 175 people who left the program in 2000, 72.6 percent (or 127) of these switched to methadone treatment or to abstinence-oriented treatment. When compared to 1999, the positive leave (i.e., switch to methadone treatment) has increased from 59.5 percent to 72.6 percent this year. Medical treatment is estimated to be about U.S. \$12,000 per year per person (U.S. \$31.8 per day). The burden of the financing, which amounted to U.S. \$11.5 million in 2000, is shared by the federal government (seven percent), the Cantons and local communities (38 percent), the government national health insurance (27 percent), and patients (28 percent).

To combat the high risk of HIV and hepatitis infection among intravenous drug users, the federal government also supports various harm reduction measures. These include needle exchange programs, injection rooms, and housing and employment programs. FHO findings show that a person's risk of contracting HIV and hepatitis is inversely proportional to his or her level of social integration. Compared to the late 1980's, the incidence of new HIV infections among addicts has decreased significantly.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** U.S. officials continue to receive excellent cooperation from their Swiss counterparts in justice and law enforcement efforts to combat narcotics trafficking and money laundering. Organized within the framework of the bilateral joint economic commission, Swiss and U.S. government

and private sector officials met in December for two days of anti-money laundering/economic crime consultations in Bern, Switzerland. The event reflected the growing cooperation between the United States and Switzerland in on issues relating to law enforcement and money laundering.

**The Road Ahead.** The United States will continue to build on its strong bilateral cooperation in the fight against narcotics trafficking and money laundering. In particular, the United States will urge Switzerland to use experiences gained in fighting terrorist money laundering to become more proactive in seizing and forfeiting funds from narcotics money laundering. The United States also will monitor Switzerland's revisions of its narcotics law and urge Swiss authorities to ratify the 1988 UN Drug Convention without reservations.

# Tajikistan

## I. Summary

Tajikistan is not a major producer of narcotics, but is a major transit country for heroin and opium from Afghanistan. The opium/heroin moves through Tajikistan through Central Asia and on to Russian and European markets, and it generally does not enter the United States. The volume of drugs following this route via multiple methods of transportation is significant and growing. Although there were dramatic gains in the total volume of drugs seized, the Government of Tajikistan (GOT) continued to have difficulty combating drug trafficking and other narcotics-related problems in a coordinated manner. Drug abuse of heroin, opium, and cannabis in Tajikistan is a growing problem. Tajikistan's medical infrastructure is highly inadequate and cannot address the population's growing need for addiction treatment and rehabilitation. The GOT remained committed during the year to implementing a counternarcotics strategy and cooperative programs with the UN Office for Drug Control and Crime Prevention (UNODCCP). It has also participated in the UN Six Plus Two counternarcotics initiative, signing the Regional Action Plan, which it helped to draft. 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, which is dominated by mountainous terrain, is thinly guarded, difficult to patrol, and easily crossed without inspection 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 continue to jostle for control of the lucrative narcotics trade. With the average monthly income in the country remaining below U.S. \$10, the temptation to become involved in narcotics-related transactions remains high for many segments of society. In-country cultivation of narcotic crops is minimal, and the GOT is unaware of any processing or precursor chemical production facilities.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Presidential Office's Drug Control Agency (DCA), created in 1999 with UNODCCP support, continued to implement a number of programs with the UNODCCP designed to strengthen Tajikistan's drug control capacity. The programs are part of a "Security Belt" strategy to stem drug trafficking from Afghanistan. The DCA aims to centralize the GOT's counternarcotics efforts and support drug treatment and rehabilitation efforts. The GOT appears to be giving counternarcotics law enforcement a higher priority than in the past, but it remains subject to pressure from regional power centers, benefiting from trafficking. The GOT's resources for counternarcotics efforts remain limited.

**Accomplishments.** Despite a slow start due to a lack of resources and infighting with other government security organs, the DCA became fully operational in April 2000. It recruited and trained a capable staff, well regarded by the UNODCCP. During 2001, it continued to raise its profile in the country and increased its public outreach efforts. The DCA also extended its links with international organizations and foreign states while expanding its cooperation with other Tajik security agencies.

**Law Enforcement Efforts.** During the first ten months of 2001, Tajikistan officials reported seizing 8.1 tons of illegal narcotics, including 3,780 kilograms of heroin and 3,590 kilograms of opium. Heroin seizures increased sharply over the previous year's ten-month totals (1.9 MT), while opium seizures fell sharply from 4.8 MT last year to 3.6 MT this year. Given the ten-to-one ratio between heroin and opium, opium equivalent seizures rose sharply. Russian Border Guard personnel were responsible for more than half the seizures. Although Tajik and Russian border forces are Tajikistan's first and main line of defense

against illegal narcotics trafficking, they remain unequal to the task. Given low pay and high incentives for corruption, they are at times, in fact, part of the problem.

**Corruption.** Influential figures from both sides of Tajikistan's civil war, many of whom now hold government positions, are widely believed to have a hand in the drug trade. While it is impossible to determine how pervasive drug corruption is within government circles, 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. 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 GOT engaging in, encouraging, or facilitating illicit production or distribution of such drugs or substances.

**Agreements and Treaties.** Tajikistan 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 1972 UN Convention on Psychotropic Substances. It has signed the Central Asian Counternarcotics Protocol with the UNODCCP and neighboring Central Asian countries. 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. Tajikistan signed the UN Convention against Transnational Organized Crime in December 2000.

**Cultivation/Production.** Opium poppies and, to a lesser extent, cannabis, are cultivated in limited amounts, most in the northern Aini and Pendjikent districts. Opium cultivation has been limited by law enforcement efforts and because it has been cheaper and safer to cultivate opium poppies in neighboring Afghanistan until the events following September 11.

**Drug Flow/Transit.** An estimated 80 percent of the narcotics produced in Afghanistan are smuggled across the border into Tajikistan's Shurobod, Moskovski, and Pyanj districts, according to GOT statistics. While the GOT may be overestimating the percentage of Afghanistan's drug production that transits Tajikistan, the total volume of drugs is certainly high. One UN estimate put the amount of heroin from Afghanistan going through the country at roughly 30 to 50 tons a year. Hashish from Afghanistan also transits Tajikistan en route to Russian and European markets.

**Domestic Programs (Demand Reduction).** The DCA expanded its initiatives aimed at increasing drug awareness, primarily among school children. However, the number of young addicts continues to grow—over 60 percent of Tajikistan's drug addicts fall into the 18-30 age group. The DCA also significantly expanded its public advocacy efforts in mass media outlets.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** The USG is committed to providing counternarcotics and law enforcement training to Tajikistan. Because security restrictions precluded the USG from providing training in Tajikistan, the USG provided law enforcement training at venues outside the country.

**The Road Ahead.** The UNODCCP will remain the principal agency supporting counternarcotics efforts in Tajikistan. The United States will continue to provide law enforcement training, encourage similar support from Western European countries, and promote regional cooperation as essential to improve counternarcotics performance for all countries in the region. It is unclear what effect U.S. operations and the removal of the Taliban in Afghanistan will have on the cross-border drug trade, but every effort will be made to assure the effects are positive.

# Turkey

## I. Summary

Turkey's geographical position makes it an important transit route for Southwest Asian opiates moving to Europe. It is also an operational base for major international drug organizations involved in drug smuggling, drug production, and drug trafficking, as well as drug-related money laundering. Turkish law enforcement organizations focus their efforts on stemming drug flows, intercepting precursor chemicals, and destroying illicit heroin processing laboratories. While most of the heroin trafficked via Turkey is marketed in Western European countries, some also finds its way to the United States. There is no clear evidence that the heroin that enters the United States from Turkey is in an amount that has a significant effect on the United States, but Turkey is a country of concern to the United States. There is no appreciable cultivation of illicit narcotics in Turkey other than marijuana grown primarily for domestic consumption. There is no evidence of diversion from Turkey's legitimate opium poppy cultivation and pharmaceutical morphine production program. Turkey is a party to the 1988 UN Drug Convention.

## II. Status of Country

Turkey is a major transshipment point for heroin passing from Southwest Asia to Europe. More significantly, it is also a major operating base for international narcotic traffickers responsible for all aspects of trafficking and refining drugs. Afghanistan is the source of most of the opiates (whether opium, morphine base, or heroin) smuggled into Turkey. Such opiates form the bulk of the heroin trafficked each year from Turkey to Western Europe and, to a lesser extent, to the United States.

The top priority of Turkish law enforcement and counternarcotics forces is to break up large drug trafficking rings. The counternarcotics forces continue to increase the sophistication of their operations, including their ability to conduct controlled deliveries domestically and internationally.

Turkish authorities continue to seize large amounts of heroin and precursor chemicals, such as acetic anhydride, and they continue to disrupt heroin laboratory operations at various locations in Turkey. Precise data on the amount of heroin and other opiates trafficked via Turkey is difficult to determine, but the DEA estimates that trafficking operatives in Turkey are involved in the smuggling of at least four to six tons of heroin per month.

While Turkey is one of the world's two traditional licit opium-growing countries, recognized by the U.S. government and the International Narcotics Control Board (INCB), there is no appreciable illicit narcotics cultivation in Turkey other than marijuana grown primarily for domestic consumption. The Turkish government maintains strict control on its licit poppy program, which provides opiates for the international pharmaceutical market. In 2001, the Turkish government continued its studies to improve its seed yields and processing techniques. The government's studies resulted in development of a poppy strain with increased morphine content. Poppy seeds from this strain have already been distributed to farmers for the 2002 crop year.

Turkey had a good licit poppy crop in 2001, thanks to mild weather conditions and sufficient rainfall. Poppy seeds remain a valuable food crop in Turkey's domestic market. The U.S. government is in the final stages of a longstanding program to work with the Turkish government to improve its licit poppy production.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Turkish government is increasingly concerned about drug abuse in Turkey. Experts believe that although the number of drug abusers in Turkey remains small, the share who are



addicts has increased rapidly in recent years. The Drug Monitoring and Guidance Board, which was established in 1997, continues to meet regularly to address Turkey's drug problems. The Board acts as a policy maker, with its membership including ministers and top-level bureaucrats. The Turkish government has strict controls on its licit poppy program and the USG is not aware of any diversion from the program.

**Accomplishments.** The Turkish government continued to enforce its active counternarcotics policy in 2001. The Turkish International Academy against Drugs and Organized Crime was established under the auspices of the UN and Turkish National Police in 2000. The academy trained 170 participants in 2001. Fifty of them were international (i.e., non-Turkish) law enforcement officers. International participants were from OECD countries, the Black Sea Economic Cooperation Group, and the Balkans. The training program led to enhanced cooperation and information sharing in law enforcement among the participating countries.

**Law Enforcement Efforts.** Turkish law enforcement agencies, particularly the Turkish National Police, are technically well-equipped and have the trained personnel to conduct complex operations. During 2001, Turkish law enforcement agencies, including the Turkish National Police, the Jandarma (rural police), Customs, and the Coast Guard, conducted successful operations and seized over 5.1 tons of heroin, 10.1 tons of hashish, and 1.7 million synthetic drug pills. There were 9,064 drug-related arrests and a significant increase in seizures of precursor chemicals, particularly acetic anhydride. Most of the hashish seizures came from the eastern part of Turkey, whereas heroin seizures were mostly from border gates in the western part. The Jandarma, responsible for patrolling Turkey's rural areas, increased the number of its units specialized in drugs in 2001 and made several important seizures. Turkish officials continue to maintain a close relationship with their American and European counterparts, as well as with the UNDCP. Turkish officials meet periodically with drug liaison officers based in Ankara and Istanbul.

**Corruption.** The Turkish government continued to struggle against corruption in 2001. The Turkish government established an anticorruption supervisory committee in 2001, under the guidance of the IMF and the World Bank. The committee, which aims to increase transparency and efficiency in the public sector, has members from the Prime Minister's Office, Auditing Board, Finance Ministry, Justice Ministry, Interior Ministry, Treasury, and the Financial Crimes Investigative Board. The Turkish government conducted two significant anticorruption operations in 2001, one in the Energy Ministry and the other in the Public Works Ministry, charging several individuals with corruption and wrong-doing in government contract tenders. The operations resulted in the resignation of both ministers and the arrest of many high-level officials. The Turkish government took another significant step against corruption by issuing a new state procurement law, which is in full compliance with EU standards. There is no evidence of corruption of high-level officials facilitating the transit or refining of narcotics in Turkey. Lower-level officials, such as those at border crossing points, might be involved in corruption that facilitates narcotics trafficking, but the government's ongoing effort against corruption strives to apprehend and punish such individuals.

**Agreements and Treaties.** Turkey is a party to the 1988 UN Drug Convention and has been a member of the Financial Action Task Force since 1991. Turkey is also a party to the 1961 UN Single Convention on Narcotic Drugs and has signed but not ratified the 1972 Protocol amending the Single Convention. Turkey is a party to the 1971 UN Convention on Psychotropic Substances. Turkey has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. The United States and Turkey have a 1928 arrangement for the exchange of certain information regarding drug trafficking. The Turkish government signed three instruments of the Council of Europe in 2001: the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime; the Criminal Law Convention on Corruption; and the Civil Law Convention on Corruption. By signing these conventions, the Turkish government agreed to take a broad range of steps to address the problems of corruption and money laundering.

The United States and Turkey have longstanding bilateral treaties covering extradition and mutual legal assistance in criminal matters.

**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. Farmers receive a higher return from the sale of poppy seeds for traditional recipes than the sale of the low alkaloid poppy straw to the government. The U.S. government is in the final stages of a multi-year program to work with TMO to improve the alkaloid content of the poppies and the efficiency of TMO's operations. Preliminary results of this program are quite encouraging. TMO officials have started reducing the cultivation areas in 2001, as they distribute the high morphine-content seeds to farmers. The seeds promise more useable alkaloids per unit of land cultivated, thus increasing land productivity.

**Drug Flow/Transit.** Turkey remains a major route, storage, production, and staging area for the flow of Southwest Asian heroin to Europe. Turkish-based traffickers and brokers operate directly and in conjunction with narcotic suppliers, smugglers, transporters, laboratory operators, drug distributors, money collectors, and money launderers in and outside Turkey. They negotiate, arrange, finance, control, direct, and engage in the smuggling of opiates (whether in the form of opium, morphine base, or heroin) to Turkey, and from Turkey to markets largely in Western Europe.

Heroin and morphine base are smuggled overland through Turkey's eastern borders and by sea to Turkey's coastal areas. The opiates imported into Turkey usually are received, owned, stored, and further distributed by Turkish-based traffickers.

Afghanistan is the original source of most of the opiates reaching Turkey. Afghan opiates, and also hashish, are stockpiled at storage and staging areas in Pakistan, from where ton or larger quantities are smuggled by overland vehicles to Turkey via Iran. Multi-ton quantities of opiates and hashish also are moved to coastal areas of Pakistan and Iran, where the drugs are loaded on ships waiting off-shore, which then smuggle the contraband to points in Turkey along the Mediterranean, Aegean, and/or Marmara seas. Opiates and hashish also are smuggled overland from Afghanistan via Turkmenistan, Azerbaijan, and Georgia to Turkey.

Traffickers in Turkey illegally acquire the precursor chemical acetic anhydride, which is used in the production of heroin, from sources in Western Europe, the Balkans, and Russia. During the 27-month period from July 1, 1999 to September 30, 2001, over 56 metric tons of illicit acetic anhydride were seized in or destined for Turkey.

Turkish-based traffickers operate illicit laboratories refining morphine base into heroin at various locations in Turkey. Some Turkish criminals operate heroin laboratories in Iran, near the Iranian-Turkish border. The ready availability of opiates originating from Afghanistan and precursor chemicals from other countries enables major traffickers in Turkey to continue to operate illicit laboratories converting morphine base into heroin. These heroin laboratories continue to pose a problem for law enforcement authorities and to provide Turkish-based traffickers with heroin, enabling them to control much of the heroin marketed to Western Europe.

**Domestic Programs (Demand Reduction).** While drug abuse remains low in Turkey compared to other countries, the number of addicts seems to have increased rapidly in recent years. The Turkish government has increased the number of drug treatment centers and established five new AMATEM (Alcohol and Substance Abuse Treatment Clinic) centers in various parts of Turkey, in addition to the first clinic in Istanbul. Due to lack of financial resources, most of the new centers focus on treatment and have no prevention programs. AMATEM Istanbul remains the only center working on prevention as well as treatment. The Health Ministry conducted a drug abuse survey in seven metropolitan cities in Turkey in 1995. Since then, the ministry has not been able to conduct any other survey on drug abuse due to lack of financial resources. In the 1995-2000 period, the Istanbul AMATEM clinic conducted various drug abuse surveys in Istanbul and one nationwide survey, which revealed a significant increase in drug abuse in

Turkey, particularly among school children. Istanbul AMATEM has broadened its outreach to local schools and doctors in an effort to better educate children about the dangers of drugs. While the Turkish government and Turkish society are increasingly aware of the need to combat drug abuse, the agencies in charge of drug awareness and treatment remain under-funded.

The UNDCP has supported Turkey's efforts against drug trafficking and abuse for 25 years. The UNDCP has not received any targeted budget contribution for Turkey since 1998, except U.S. \$300,000 for the Turkish International Academy against Drugs and Organized Crime. Turkey has good relations with the UNDCP and will continue to work closely with the UNDCP once there is new budget allocation for Turkey.

#### **IV. U.S. Policy Initiatives and Programs**

**U.S. 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.

**Bilateral Cooperation.** The United States enjoys excellent bilateral cooperation with Turkey on narcotics issues. Turkish counternarcotics forces have developed technically, and have become increasingly professional, in part based on the training and equipment they received from the United States.

**The Road Ahead.** Turkey has been going through a serious political and economic transformation in order to become a part of the global economy and a member of the EU. After the two economic crises of 2001, Turkey is more dependent than ever on international financial assistance, which requires Turkey to undertake economic reforms. Going through this reform process, the Turkish government continues to take radical measures to improve transparency in the government, in the private sector, and particularly in the banking system. The USG expects Turkey to continue to improve its efforts to combat drug trafficking, money laundering, and corruption. There is no question of Turkey's will to fight narcotics crime, but its ability to do so efficiently could be impacted negatively by the continuing domestic economic crisis.

# Turkmenistan

## I. Summary

Turkmenistan is not a major producer or source country for illegal drugs or precursor chemicals, but due to its proximity to drug producing countries, especially Afghanistan, Turkmenistan remains a transshipment route for traffickers seeking to smuggle contraband to Turkish, Russian and European markets. Turkmenistan shares a rugged and remote 1180-kilometer border with Afghanistan as well as an 800-kilometer boundary with Iran. Counternarcotics efforts in Turkmenistan are carried out by several agencies, to include the Committee for National Security, State Customs, and State Border Guards Service. The government of Turkmenistan (GOTX) continues to commit itself to supporting a vigorous counternarcotics effort, but its law enforcement agencies are hampered by a widespread lack of equipment, resources, and training. Anecdotal evidence and contacts with government officials and non-governmental organizations strongly suggest that domestic drug abuse is steadily increasing, although concrete statistics are difficult to obtain. Turkmenistan is a party to the 1988 UN Drug Convention, having signed it on June 18, 1996, and is making a sincere attempt to meet the Convention's goals.

## II. Status of Country

Turkmenistan is not a major producer or source country for illegal drugs or precursor chemicals, but it remains a transit country for the smuggling of narcotics and precursor chemicals. The flow of Afghan opiates destined for markets in Turkey, Russia and Europe, including drugs such as heroin, opium and other opiates enters Turkmenistan directly from Afghanistan, and also indirectly from Iran, Pakistan, Tajikistan and Uzbekistan.

The bulk of Turkmen counternarcotics resources and manpower is located on the borders with Afghanistan and Iran. Turkmen crossing points on the Uzbek border, where law enforcement efforts are primarily directed at interdicting smuggled commercial goods, is a potentially attractive route for narcotics traffickers. Caspian Sea ferryboat traffic from Turkmenistan to Azerbaijan and Russia also continues to be a viable smuggling route. In addition, Turkmenistan Airlines operates international flights connecting Ashgabat with Abu Dhabi, Bangkok, Birmingham, England, Frankfurt, Istanbul, London, Moscow, New Delhi and Tehran, all of which could potentially be used by traffickers.

In general, specific seizure statistics are unavailable for any of the potential routes. The GOTX did, however, report increases in drug seizures along the Uzbek border for 2001. The majority of those arrested were Turkmen citizens attempting to smuggle heroin or opium through legal border crossing points. The contraband was usually hidden on the smuggler's body or concealed in cars or buses. Anecdotal evidence and official contacts report truck or railcars transport large consignments of narcotics out of Turkmenistan. In the past year, Turkmen authorities have also arrested an increasing number of couriers, mostly Turkmen or Tajik citizens, who swallow narcotics, and attempt to pass legal crossing points on the Uzbek border.

Turkmen officials reported a considerable drop in the number of large-scale drug seizures along the Turkmen-Afghan frontier at the two border entry points, as well as significantly fewer crossings by, and confrontations with armed smugglers on the border (although some still occurred). Although they have provided no statistics to substantiate their claim, Turkmen officials have speculated that in addition to Uzbek smugglers, smuggling organizations in Afghanistan, Pakistan and elsewhere may be returning to more traditional routes through Iran due to military operations in Afghanistan. They have also attributed the decline in seizures on the Afghan border to increased Turkmen law enforcement presence on the Afghan border. Turkmen authorities have also reported a recent trend of smugglers attempting to move their drugs via legal entry points in hidden compartments in vehicles and in containerized cargo.

The domestic street price for illegal drugs dramatically changed after September 11, according to official contacts. Heroin, pre-September 11, sold for approximately U.S. \$15 per gram and opium approximately U.S. \$2 per gram. (N.B. Police sources suggest that the average street purchase is between 0.4 and one gram, constituting 20 to 40 doses) Turkmen authorities reported that immediately following September 11 the street price for heroin based narcotics plummeted, only to rise nearly six times the normal price by mid-to late-September, where it has remained. There have been reports that large quantities of opiates left Afghanistan in mid/late September/early October. A successful Taliban ban on poppy production in Afghanistan during the 2000/2001 growing year sharply reduced new production, reducing the amount of opiates moving throughout the region. Traffickers depended on stocks, and when they were exhausted, street opium prices in several regional countries (e.g., Iran) rose sharply.

Prior to the price increase, anecdotal evidence suggested (and police sources have alluded to) an increase in the domestic user population, in particular in the capital of Ashgabat and the second largest city of Mary. There are no indications that the price rises following September 11 have resulted in declines in usage. The Ministry of Health reported that the heroin problem has stabilized since '98-'99, however street contacts report that heroin abuse continues to escalate and that abusers have little fear of being caught or prosecuted. The Turkmen Ministry of Health estimates that six to seven percent of the population use illegal drugs; unofficial estimates put the user population at ten to eleven percent, virtually all of them young people. While officials are reluctant to provide specific statistics, there is an indication that the quality of the heroin continues to be very poor. Officials also report that 98 percent of the heroin users in Turkmenistan are smoking the narcotic, rather than injecting it. One source reported, however, that needles and throw-away syringes are easily obtainable and are regularly shared by users, opening up the possibility for HIV transmission.

Turkmen law enforcement authorities continue to engage in operations to prevent the smuggling of the precursor chemical acetic anhydride (AA) through Turkmen borders. These efforts are primarily focused around the large rail and truck border crossing point at Kuska on the Afghan border. Between 1998 and 2000 Turkmen authorities seized nearly 146 tons of AA produced in India (eight metric tons at the Kuska border alone).

The manufacture, possession, sale and use of illicit narcotics are illegal under the Turkmen criminal code, which went into effect in 1997. Although the code provided for the death penalty in certain trafficking cases, President Niyazov's 1999 moratorium on capital punishment remains in effect. Those convicted of possession of even small amounts of illegal drugs are routinely sentenced to eight to ten years in prison; these sentences are mitigated by the President's annual custom of granting amnesty to all but the most hardened criminals in celebration of the new year.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In early 2001 the Turkmen parliament approved new legislation allowing Turkmen law enforcement personnel to conduct searches of private residences. Under the new law, police may legally search a residence only after presenting evidence of the presence of weapons, explosives or more than five kilograms of narcotics to a city, county or regional government-appointed commission which then decides whether to issue a search warrant. The U.S. embassy has no indication as to the effect this new legislation has had on Turkmen drug enforcement efforts. There are reports have heard that the police do not abide by the new law.

**Accomplishments.** Work on a National Drug Intelligence Information Center was completed in early 2001 in connection with the final phase of an institution building project sponsored by the UN Office of Drug Control and Crime Prevention (UNODCCP). The operational heart of the Information Center consists of a central server in the Ministry of Internal Affairs connected with computer systems in the State Drug Control Commission, the Committee for National Security, the State Border Guard Service, the General Prosecutor, and the Ministry of Health. The GOTX hoped that the Information Center and resulting connectivity between its primary law enforcement agencies would facilitate the collection,

analysis, and exchange of drug related intelligence, and enhance the effectiveness of Turkmen counternarcotics efforts. Unfortunately, the project collapsed in less than a year as a result of poor maintenance of the equipment. The central computer server is damaged and most computer stations are not functioning.

**Law Enforcement Efforts.** The GOTX continues to give high priority to counternarcotics law enforcement. Despite a lack of modern equipment and sufficient transport, Turkmen border forces are effective in detecting and interdicting illegal crossings by armed smugglers. According to GOTX officials, there are now female border guards along the Turkmen border checkpoints being used to effect searches of suspected female traffickers. Nearly half of all traffickers now arrested at border crossings are female. Official statistics have only been provided for the first five months of 2001. In that period Turkmen law enforcement agencies detained 169 border violators and seized 1298 kilograms of narcotics. In 2000, 5,245 kilograms of hashish, 129 kilograms of opium, and 50 kilograms of heroin were seized in Turkmenistan. GOTX officials have provided no full-year statistics for 2001 concerning the seizure of cocaine, poppy seed, poppy straw, marijuana, or Acetic Anhydride (AA) in Turkmenistan.

**Corruption.** Statistics on or information concerning police corruption in Turkmenistan is difficult if not impossible to obtain. However, the low salaries of Turkmen law enforcement officials, combined with their broad general powers, fosters an environment in which corruption could readily occur. Furthermore, a palpable general distrust of the police by the Turkmen public, bolstered by anecdotal evidence of police officers soliciting bribes under the guise of routine traffic stops, suggests corruption in Turkmen law enforcement. To combat this problem, the USG has scheduled for late 2002 community policing, police transition and internal affairs courses for Turkmen law enforcement.

**Agreements and Treaties.** On June 18, 1996 Turkmenistan acceded to the 1998 UN drug convention. Turkmenistan also is a party to the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. During the October 2000 Tashkent Conference on Drugs, Organized Crime and Terrorism, the GOTX formally approved its participation in the UNDCP-sponsored precursor control project for Central Asia and signed the conference draft agreement on priority areas of cooperation.

**Cultivation and Production.** Turkmenistan is not a significant producer of illegal drugs, although small-scale opium cultivation is thought to occur in remote mountain and desert areas. Each spring, the GOTX conducts limited aerial inspections of outlying areas in search of illegal poppy cultivation. Upon discovery, opium crops are eradicated by Turkmen law enforcement.

**Drug Flow/Transit.** Turkmenistan remains a transit corridor for smuggling organizations seeking to transport opium and heroin to markets in Turkey, Russia and the whole of Europe and for the shipment of precursor chemicals to drug producing countries. According to GOTX officials, the quantity of drugs intercepted this year along the Afghan border has been very small due to border fortifications and interdiction efforts which, according to the GOTX, are deterring traffickers from attempting to transport narcotics out of Afghanistan through Turkmenistan.

Turkmenistan's nearly 1800 kilometer Uzbek frontier remains thinly staffed by border guard forces in comparison to its boundaries with Afghanistan and Iran. In addition, Turkmenistan's Uzbek border has numerous legal crossing points that are ill-equipped in comparison to those on its Afghan and Iranian frontiers. GOTX officials have expressed concern to Embassy officers that the Uzbek frontier has increasingly become an attractive alternative for smugglers seeking to circumvent more stringent controls on Turkmenistan's southern borders in the wake of ongoing coalition military operations.

Turkmenistan's two major border control agencies, State Customs and the Border Guards, are significantly handicapped in carrying out their drug enforcement duties by a systematic lack of adequate resources, facilities and equipment. Most Turkmen border crossing points have only crumbling, rudimentary inspection facilities for screening vehicle traffic and lack reliable communications systems, computers, unloading and x-ray equipment, as well as dogs trained in narcotics detection. Even as

Turkmen law enforcement does a creditable job of drug interdiction given its limited resources, GOTX officials and U.S. Embassy officers believe Turkmenistan will continue to serve as a major transit route for illegal drugs and precursors.

**Domestic Programs/Demand Reduction.** Currently, the Ministry of Health operates six drug treatment clinics: one located in the capital, Ashgabat, and one in each of the five provinces. Narcotics users can receive treatment at these clinics without revealing their identity and all clinic visits are kept strictly confidential. The GOTX has permitted the implementation of a UNODCCP/UN AIDS project for the prevention of drug abuse, AIDS and sexually transmitted disease among youth in Turkmenistan. The project calls for a drug abuse assessment of five to six Turkmen cities over a one or two month period. The Ministry of Health is the focal point for assessing all data to be gathered in the survey.

#### IV. U.S. Policies and Initiatives

**Bilateral Cooperation.** The USG continually seeks to assist Turkmenistan in updating its law enforcement institutions and body of law to counter the illegal drug trade. In an effort to increase Turkmenistan's counternarcotics capabilities, the USG and the GOTX signed a bilateral Project Assistance Agreement on September 21, 2001 for the provision of law enforcement training and forensic laboratory equipment to Turkmenistan. The completion of this agreement marked an important step towards expanding meaningful cooperation between the two governments in the area of law enforcement. This agreement establishes a three-year project designed to improve Turkmen law enforcement agency efforts against narcotics and organized crime, specifically focusing on improving criminal investigations through the scientific and forensic analysis of evidence.

Nine Turkmen candidates attended Session 30 of the core course for mid-level law enforcement managers at the International Law Enforcement Academy (ILEA) in Budapest from March to May 2001, under USG sponsorship.

**The Road Ahead.** In the coming year, the USG will continue to cooperate with Turkmenistan in its fight against the illegal drug trade. This will be accomplished by working with international and domestic non-governmental organizations and programs, such as UNODCCP and the American Bar Association, to enhance the ability of Turkmen judicial and legal institutions to combat narcotics smuggling organizations and crime associated with illegal drugs. The USG will also encourage the GOTX to institute long-term demand reduction efforts and will foster supply reduction through interdiction training, law enforcement institution building and the promotion of regional cooperation. To this end, the USG plans to continue its efforts, greatly welcomed by the GOTX, to train Turkmen counternarcotics law enforcement officials. In 2002 the USG will conduct training for Turkmen officials in the fields of forensic chemistry, drug enforcement, passenger interview and vehicle inspection techniques, and will establish a police academy development program.

# Ukraine

## I. Summary

Trafficking and use of narcotics continued to increase in Ukraine in 2001. The Government of Ukraine continued to take concrete steps to limit illegal cultivation of poppy and hemp. The transit of narcotics through Ukraine remains a problem. Ukraine is a party to the 1988 UN Drug Convention, and it follows the provisions of the Convention in enacting counternarcotics legislation. Combating narcotics trafficking continues to be a national priority for law enforcement bodies, though a lack of resources seriously hinders Ukrainian efforts. Coordination between law enforcement agencies responsible for counternarcotics work has improved, but still remains a problem due to regulatory constraints.

## II. Status of Country

Ukraine is not a major drug producing/transit country, though Ukrainian officials state that trafficking of narcotics through Ukraine has increased due to its location on a main transit route for Afghan heroin headed for Europe. Domestic use of narcotics is also rising and the number of drug addicts is increasing. Ukraine is a significant transit corridor for narcotics originating in Central and Southwest Asia (Afghanistan, Pakistan) and former USSR republics, as well as originating in Central and Eastern Europe. Numerous ports on the Black and Azov seas, porous borders, poorly financed, and under equipped border and customs controls make Ukraine susceptible to drug trafficking.

According to preliminary statistics for the first nine months of 2001, approximately 36,000 criminal cases involving narcotics were prosecuted, and approximately 33,000 people were convicted or fined, a minor increase over last year's figures for the same period. Unemployed persons under the age of 30 committed most crimes connected with drugs.

The number of officially registered drug addicts in Ukraine now exceeds 106,000, including almost 5,000 teenagers. The total figure is an increase of approximately 6,000 over last year's figures. The number of unregistered abusers is estimated to be more than five times that number. Drug addiction results in more than 1,000 deaths every year, according to Ukrainian health authorities. Marijuana is becoming more popular with young people. Nevertheless, opium straw extract remains the main drug of choice for Ukraine addicts. Young people use synthetic drugs more frequently. Hard drugs such as cocaine and heroin are still too expensive for Ukrainian drug users, but law enforcement officials indicate a rise in heroin use due to the reduced price for this drug. Ukrainian efforts to combat narcotics are seriously hampered by the lack of resources (e.g., financing, personnel, equipment).

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Operation "Channel" is an important example of a new international cooperation effort aimed at interdicting the smuggling of drugs on Ukraine's borders with Russia, Belarus, and Moldova. As a result of four joint operations with neighboring Russia, Belarus, and Moldova, 212 drug couriers were arrested and 576.6 kilograms of drugs were seized.

During the last five years the Ukrainian parliament passed a package of drug control laws. The laws are well drafted and constitute a solid legal basis for combating narcotics effectively. These laws are in line with the 1988 UN Drug Convention.

Under this legislation, the counternarcotics enforcement responsibility is given to the Ministry of Interior (MVS), 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 MVS was created. The



DED reports directly to the Minister of Interior and is staffed by 1,725 personnel. Despite understaffing, the DED has achieved positive results in combating drug trafficking.

The national counternarcotics coordinating council, established in 1994 in the Cabinet of Ministers to coordinate the efforts of government and public organizations to combat drugs, is currently drafting a counternarcotics program for the period through 2008. The main objective of the program is to make qualitative changes in the national strategy for combating narcotics. Although many of the measures in previous national counternarcotics plans (1994-1997, 1998-2000) were constrained by lack of funding, the MVS is giving a priority to counternarcotics actions and is providing overall support to the maximum extent available.

Drug trafficking groups are increasingly using Ukrainian seaports to transit drugs to the West. Therefore, the government is increasing activities by the State Security Service and other agencies to interdict the shipment of drugs by sea. Authorities have also increased counternarcotics measures to interdict drugs at Ukrainian airports.

In 2001, the Ukraine became an observer nation in the South East Europe Cooperative Initiative (SECI) Organized Crime Center. The member nations and observer countries are pooling their limited resources to effectively and successfully confront regional drug trafficking and other criminal threats to the area. As an observer nation, the United States provides technical expertise and financial assistance to SECI's efforts.

**Accomplishments.** As stated above, Ukraine's efforts to implement counternarcotics plans have been hampered by the severe lack of funding for law enforcement and social agencies. Nevertheless, the Ministry of Health and the Ministries of Education And Culture are working with the MVS to intensify counternarcotics educational programs. A pilot project approved by the Ministry of Health directed at demand reduction was initiated in Donetsk Oblast; it dispenses methadone to addicts.

In 2001 Ukrainian law enforcement bodies succeeded in breaking up more than 3,000 criminal groups involved in drug activities.

Ukrainian law enforcement authorities dismantled and arrested the members of the "Palermo" group, a drug ring that operated in Odessa Oblast in southern Ukraine and was involved in the production and cultivation of opium sold in Moldova and Ukraine. At the time of the arrest, 40 liters of opium extract, 25 kilograms of poppy straw, 90 liters of special solvent, and 20 liters of acetone were confiscated. During the last three years, the security service of Ukraine has closed more than 120 international channels of smuggling. They confiscated 800,000 doses of heroin and cocaine, and 35,000 doses of MDMA ("ecstasy") and other drugs.

**Law Enforcement Efforts.** Cooperation between law enforcement agencies involved in counternarcotics efforts (mainly MVS, SBU, Customs, and Border Guards) is improving, though it is still severely hampered by conflicts over investigative jurisdiction. During the first nine months of 2001, Ukrainian law enforcement agencies were successful in seizing approximately 29 tons of narcotic drugs. This included in-country seizures of 4 kilograms of heroin, 2.7 tons of marijuana, 110 kilograms of opiates, 5.7 kilograms of hashish, 26 tons of opium poppy straw, 8,207 doses of "ecstasy," and 47 doses of LSD. Every year the government conducts operations to destroy poppy and hemp fields. In 2001, government authorities destroyed 233,000 square meters of opium poppy, marijuana, and wild cannabis fields.

**Corruption.** Ukrainian politicians, private citizens, and international experts point out that corruption remains a major problem. Corruption in Ukraine is rarely linked with narcotics, though it decreases the effectiveness of efforts to combat organized crime, a major factor in the narcotics business. In an exception to this rule, in Vynnytsia oblast, three police officers were convicted for the cultivation and production of marijuana. To combat corruption, the Ukrainian government has adopted a set of laws and decrees. At the beginning of 2001, the government approved a national plan of action to combat corruption.

**Agreements and Treaties.** Ukraine is a party to the 1988 UN Drug Convention and has also signed specific counternarcotics project agreements with the UNDCP. Ukraine is a party to the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. 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 counternarcotics agreements were 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, Germany, and the UK. The Ukrainian parliament (Rada) ratified the U.S.-Ukraine Mutual Legal Assistance Treaty in Criminal Matters in September 2000. Ukraine signed the UN Convention against Transnational Organized Crime in December 2000 and signed the Protocol to Prevent, Suppress and Punish Trafficking in Persons and the Protocol against the Smuggling of Migrants in November 2001. A 1989 memorandum of understanding and a 1990 agreement between the United States and the USSR, both of which address narcotics, apply to Ukraine.

**Cultivation/Production.** Opium poppy is basically grown in western, southwestern, and northern Ukraine, while hemp cultivation is concentrated in the eastern and southern parts of the country. Small quantities of poppy and hemp are grown legally by licensed farms, which are closely controlled and guarded. The Cabinet of Ministers approved such cultivation for the food industry in late 1997. At the beginning of 2001, law enforcement authorities discovered a “home laboratory” producing narcotics in Zaporizhzhia oblast. More than 20 kilograms of opium poppy were confiscated. Despite the prohibition on the cultivation of drug plants (poppy straw and hemp), 7,000 cases of illegal cultivation by private households were discovered.

**Drug Flow/Transit.** Ukraine continues to experience an increase in drug trafficking from Central and Southwest Asia, Russia, Romania, Moldova, and Poland. Turkish criminal groups use Ukraine’s seaports as part of the “Balkan Route” for smuggling narcotic drugs. During the last two years, more than 45 conspiracies relating to international drug trafficking were broken up. Shipments are usually destined for the west, and arrive by road, rail, or sea. While opium and marijuana are mostly produced locally, synthetic drugs are basically imported from Romania, Hungary, Poland, Germany, and other European countries.

**Domestic Programs (Demand Reduction).** Ukrainian officials are trying to reduce drug demand through preventive actions at schools, because most Ukrainian drug abusers are under the age of 30. Drug information centers have been opened in the cities with the highest levels of drug abuse. NGOs operating with assistance from international institutions have conducted a number of rehabilitation programs have been conducted throughout the country.

## IV: U.S. Policy Initiatives and Programs

**U.S. Policy and Objectives.** U.S. objectives are to assist Ukrainian authorities to develop effective counternarcotics programs both in interdiction (particularly of drugs transiting the country) and demand reduction, as well as to prevent Ukraine from becoming a money laundering center. The DEA, the Department of Treasury, and the Department of Justice have sponsored a number of training courses and conferences in such areas as drug interdiction, forensic science, money laundering, and management training. The United States has provided technical assistance in the drafting of new Ukrainian money laundering legislation.

**The Road Ahead.** By international standards, Ukraine does not yet have a serious drug problem. However, trafficking of narcotic drugs from Asia and the cocaine regions of Latin America to European destinations through Ukraine is increasing as drug traffickers look for new ways to circumvent Western European customs and border controls. Demand reduction and treatment of drug abusers remain problems requiring close attention. Law enforcement agencies need continued assistance in modern techniques to fight drug trafficking. In spite of financial problems, Ukrainian law enforcement agencies collaborate effectively with law enforcement counterparts from other countries. Ukrainian authorities have

expressed interest in more U.S. training and assistance to combat narcotics trafficking. They also are interested in forming broader professional links and exchanging information with the United States and other countries.

# United Kingdom

## I. Summary

The United Kingdom (UK) is a consumer country of illicit drugs. Like other developed nations, the UK faces a serious domestic drug problem. The UK is in the fourth year of a ten-year drug strategy to address both the supply and demand aspects of illegal drug use. The UK strictly enforces national precursor chemical legislation in compliance with EU regulations. Crime syndicates from around the world tap into the underground narcotics market and use the UK as a major shipping route. If enacted, new legislation introduced in October 2001 will improve the UK's asset forfeiture capabilities. The United States and the UK 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 both supply and demand reduction, while the government's counternarcotics strategy addresses international, national, regional, and local plans and initiatives. Marijuana remains the most-used illicit drug in the UK, but with an estimated 200,000 problem opiate users, a major concern is heroin and other more harmful drugs (notably powder and crack cocaine). Cocaine use seems to have been on the increase over the last five years, especially among young people. The UK's major drug survey shows that, although the proportion of adults using drugs other than cocaine in the previous year has not changed significantly since 1994, the proportion using cocaine in the past year increased significantly among both adults (from 0.5 to 1.7 percent) and among teenagers aged 16 to 19 (from one to four percent). Use of crack also increased during 2001 to approximately one per cent of young people. Virtually all parts of the UK, including many rural areas, confront the problem of drug addiction to at least some degree. The death toll from heroin/morphine rose from 445 in 1997 to 754 in 1999 in England and Wales. Similarly, in Scotland the figure rose from 74 in 1997 to 196 in 2000. All acute drug-related deaths in the United Kingdom rose from 3,160 in 1997 to 3,333 in 1999. In all cases, these are the most recent statistics available. The UK government launched its Action Plan to Reduce Drug-Related Deaths on November 13, 2001. It announced a three to five-year program of campaigns, surveillance, and research that will play a key role in achieving the government's objective to reduce such deaths by 20 percent by 2004.

The number of people dealt with by the Criminal Justice System for possession of cocaine rose by 70 percent between 1997 and 1999 (from 2,375 to 4,036). The number for crack cocaine rose by 114 percent (from 388 to 829), and heroin by 42 percent (from 7,213 to 10,236), during the same period. In the 1999/2000 British fiscal year, Customs seized Class A (Schedule One) drugs valued at \$1.9 (1.2 BPS) billion. Seizures of, and arrests for, some other drugs (e.g., amphetamines and cannabis), however, have gone down, reflecting shifts in priorities in the government's counternarcotics strategy and in targeting by enforcement agencies.

The National Criminal Intelligence Service (NCIS) reports that Britain faces its worst-ever threat from national and international organized crime. Drugs are linked to about 80 percent of all organized crime in London, and about 60 percent of UK crime overall.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The British government has developed a ten-year strategy, first launched in 1998, that emphasizes 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. Trends in drug abuse reflect wider UK government reforms in the welfare state, education, employment, health, immigration, criminal justice, and economic sectors.

The strategy focuses on Class A (i.e., hard) drugs and has four elements: young people, to help them resist drug misuse and to permit them to reach their full potential in society; communities, to protect them from drug-related, antisocial and criminal behavior; treatment, to enable people with drug problems to recover and live healthy, crime-free lives; and drug availability, to limit access to narcotics on the streets. Key performance targets have been set in each of these four elements. The targets and progress against them are currently being reviewed to ensure they have the right balance and focus.

The UK plays a leading role within the EU in combating drugs. Under the 1998 UK presidency, work was begun on a new EU drug strategy for 2000-2004; the Cardiff European Council (June 1998) endorsed its essential elements. In a speech to the Scottish Parliament in March 2000, Prime Minister Tony Blair spoke of his concern about the serious drug problems that EU member states share with applicant countries. He called for EU action against drugs to be given a much higher priority and made a number of proposals for member states to increase exchange of information, develop common key indicators for measuring their progress in tackling drug-related problems, make early progress in developing common sanctions for drug traffickers, and provide more practical help to the EU candidate countries in dealing with their drug problems.

These and other proposals were subsequently included within the EU Action Plan on Drugs 2000-2004, developed under the Portuguese Presidency and approved by the European Council at Feira in June 2000. The UK has acted swiftly to increase its assistance to EU applicant countries, particularly those on the heroin smuggling route through the Balkans, including an 18-month, cooperative counternarcotics program with Bulgaria.

The head of the Drugs and International Crime Department (DICD) at the Foreign and Commonwealth Office (FCO), Michael Ryder, is the UK Special Representative for international drug issues. Following the general election in 2001, David Blunkett (UK Home Secretary) took responsibility for delivery (i.e., implementation) of the drug strategy. Keith Hellawell, until July 2001 UK Anti-Drugs Coordinator, has been engaged by the UK government to support the work being undertaken to help EU applicant countries prepare the necessary drug strategies and related infrastructure to meet the drug-related requirements of EU membership.

The UK works closely with the UNDCP and was its third-largest bilateral donor in 1999-2001. 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 fora, 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. During the UK's 1999-2000 fiscal year, the UK disbursed approximately U.S. \$9.2 (BPS 6) million in aid and assistance focusing on the primary Southwest Asian and Balkan heroin routes and on the Latin American and Caribbean cocaine routes. This level of assistance and key targets for assistance continued in 2001.

In July 2000, the UK government's Spending Review targeted expenditures on the root causes of drug misuse that will rise significantly to approximately U.S. \$1.5 (1 BPS) billion by 2003-2004. By then, expenditure on treatment services will be approximately U.S. \$617.5 (401 BPS) million, a 70 percent increase over current figures. Additionally, an extra U.S. \$330 (220 BPS) million over three years was announced in the 2001 budget for Communities Against Drugs (CAD) to support local community partnerships which are tackling the problem of drugs and drug-related crime in their areas.

A range of drug-prevention activities, targeting young people, has already been undertaken. In particular, a program to develop new drug-prevention services for young people at risk of drug misuse will be an integral component of the 26 Health Action Zones (a broader health-policy initiative).

Legislation was passed in 2000 under the Criminal Justice and Court Services Act, which gives police the power to test criminal suspects for Class A drug use when an offense may be linked to hard-drug misuse. Courts will be required to weigh a positive test result when deciding bail, and testing will be extended to

offenders serving community sentences and those on parole. These proposals are being pilot tested in three areas before wide scale introduction.

In Scotland, the government published in May 2000 its Drugs Action Plan, which sets out action in support of the implementation of Scotland's 1999 counternarcotics strategy. Additional funding has been allocated for three years from 2001/2002 which will, for example, increase treatment and rehabilitation services in communities and prisons, and provide extra investment for programs for children, young people, and families.

**Accomplishments.** The Drug Treatment and Testing Order is a community-based sentence, authorizing local courts to require offenders to undergo treatment and submit to mandatory and random drug testing. The Order began as a pilot program in September 1998 in three areas of England. It was rolled out nationally in England and Wales on October 1, 2000, after the pilot program demonstrated that the combination of treatment and random testing (to monitor progress) significantly reduced illegal drug use and criminal activity of offenders subject to the Order. By March 2001, over 1,200 orders had been made. Accelerated by a centrally funded, three-year endowment of approximately U.S. \$30.8 (BPS 20) million in 1999, arrest referral schemes for all local police-custody facilities in England and Wales have achieved almost 90 percent coverage and are well ahead of the 2002 target for full coverage.

In January 1999, the Home Secretary announced a new initiative to reduce smuggling of drugs into prisons, and the government launched a prison service drug treatment program. Counseling, assessment, referral, advice, and care/treatment services (CARATs) are now available in every prison in England and Wales and the annual caseload is likely to exceed the target of 20,000 full assessments for 2002.

The Drugs Prevention Advisory Service, launched in April 1999, is now supporting local drug action teams (DATS) in delivering all four aims of the drug strategy. In May 1999, the UK Anti Drugs Co-ordination Unit (UKADCU) published the UK's first comprehensive counternarcotics plan, which set tough, binding targets to be monitored by appropriate government departments. Key targets include reductions in the number of young people using heroin and cocaine; availability of heroin and cocaine among young people; and recidivism by drug-misusing offenders (all by 25 percent by 2005, and 50 percent by 2008). Another key target is to increase the number of people accessing treatment services (by 66 percent by 2005, and 100 percent by 2008).

According to the UKADCU Annual Report for 2000/2001, published in July 2001, progress is being made toward all targets. Achievements include: a steady expansion and improvement of drug education in schools; 16 percent more people presenting for treatment from April to September 2000 compared to the period from April to September 1998; the establishment of the National Treatment Agency in April 2001, responsible for drug treatment provision, including the setting and monitoring of drug misuse treatment standards through a pooled government budget; a new Connections Service, delivered through regional partnerships, to provide 13 to 19-year-olds with information, advice, guidance, and support tailored to their needs. The first 12 Connections Partnerships began delivering the service in April 2001; the remaining 31 will begin in 2002.

Results of the National Treatment Outcome Research Study (NTORS) indicated that five years after treatment significant reductions in former users' drug consumption and related offending had largely been sustained, supporting the strategy's aim of getting offenders into treatment. The NEW-ADAM survey program—in which adult arrestees provide a urine sample for drug testing, and are interviewed about their recent and longer-term drug use and offending behavior—produced a third report, based on eight locations visited in 1999/2000. This showed that 65 percent of arrestees tested positively for at least one illicit drug; and 30 percent tested positive for two or more substances. Twenty-nine percent tested positive for opiates (including heroin) and/or cocaine (including crack). In future years, reports covering a minimum of 16 sites will provide more extensive data.

**Law Enforcement Efforts.** Law enforcement in the UK is a multi-agency effort. HM Customs and Excise, the National Crime Squad, and regular police forces—supported by the National Criminal

Intelligence Service and the security and intelligence agencies—work effectively to reduce the supply of drugs that enter and are distributed within the UK. In Scotland, the Scottish Drug Enforcement Agency (similar to the U.S. DEA) was established in 2000.

UK forfeiture law (known in UK law as “confiscation”) applies to proceeds of all indictable offenses and a small number of specified offences. The United States enjoys good cooperation from the UK. The UK honors U.S. freeze requests and was one of the first countries to enforce U.S. civil forfeiture judgments. In October 1999, Prime Minister Blair asked the Cabinet Office Performance and Innovation Unit (PIU) to assess the government’s efforts at confiscating criminal proceeds. In June 2000, the PIU published its detailed report “Recovering the Proceeds of Crime,” criticizing the effectiveness of the UK’s efforts both in pursuing and collecting on confiscation orders and finding that existing powers are under used. The PIU has, among other things, proposed the creation of a national confiscation agency dedicated to recovering criminal assets, the adoption of civil forfeiture laws, and the promotion of greater international cooperation. Incorporating many of the recommendations in the PIU report, the Proceeds of Crime Bill was introduced in Parliament in October 2001. The UK government has also published its first Asset Recovery Strategy. More information can be found on the Internet at [www.homeoffice.gov.uk/proceeds](http://www.homeoffice.gov.uk/proceeds).

**Corruption.** Narcotics-related corruption of public officials at all levels 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 United States and United Kingdom also have a mutual legal assistance treaty relating to the Cayman Islands, which has been extended to Anguilla, the British Virgin Islands, Montserrat, and the Turks and Caicos Islands). The United States and the UK are also party to a 1928 agreement for the direct exchange of information regarding the traffic in narcotic drugs and a 1981 agreement to facilitate the interdiction by the United States of UK vessels suspected of trafficking in drugs. The UK is a party to the 1988 UN Drug Convention and complies fully with its provisions. The UK is also a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. The U.S.-UK Extradition Treaty was updated most recently in 1985. 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. In December 2000, the U.K. signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** Marijuana is cultivated in limited quantities for personal use, and occasionally sold commercially. Most illicit amphetamines and MDMA (ecstasy) are imported from continental Europe, but some are manufactured in the UK in limited amounts. Authorities destroy crops and clandestine facilities as detected.

**Drug Flow/Transit.** Steady supplies of heroin and cocaine enter the UK. Although some 90 percent of heroin in the UK (amounting to around 30 tons a year) normally comes from Southwest Asia, chiefly Afghanistan, the quantity of opiates entering the UK in 2001 was distorted by the ban on opium poppy cultivation in Afghanistan instituted by the Taliban in July 2000, and thereafter effectively enforced. Trafficking was not banned, however, and supplies of Afghan opium stock from previous years’ crops were released and supplied to the markets in Western Europe and the UK. This situation resulted in an initial decline in opiates reaching the UK, followed by a sharp increase from depressed levels, beginning in the fall of 2001. A significant amount of the heroin eventually imported into the UK is handled at some point by UK-based Turkish criminal groups although Turkish criminals in the Netherlands and Belgium also channel heroin to the UK. Pakistani traffickers also play a significant part, but most of the heroin they import, normally in small amounts by air couriers traveling direct from Pakistan, is destined for British cities where there are large South Asian populations. Caribbean criminals (primarily West Indians or British nationals of West Indian decent) are increasingly involved in the supply and distribution of heroin

as well as cocaine. Most heroin probably enters the UK through ports in the southeast, although some enters through major UK airports with links to Turkey, Northern Cyprus, and Pakistan. Strategies and operational measures to combat the traffickers are now the subject of concerted action by all the UK's law enforcement and intelligence agencies. This more coordinated approach, with greater emphasis on intelligence and in partnership with international law enforcement agencies has led to greater success in disrupting trafficking groups and increasing seizures.

The UNDCP believes that drug traffickers increasingly use some of the Central Asian Republics of the former USSR as alternative smuggling routes to the UK. British authorities have been unable to verify this.

Hashish comes to the UK primarily from Morocco. Cocaine imports are estimated at 25-40 tons a year and emanate chiefly from Colombia. Supplies of both cocaine and crack cocaine reach the UK market in a variety of ways. Around 75 percent of cocaine is thought to be carried across the Channel from consignments shipped from Colombia to mainland Europe and then brought to the UK concealed in trucks or private cars, or by human couriers or "mules." Traffickers based in the UK are the organizers. The Caribbean, chiefly Jamaica, is a major transshipment point from Colombia with import to the UK being achieved by air freight and by increasing numbers of couriers, normally women, attempting to conceal internally (i.e., through swallowing in protective bags) up to 0.5 kilogram at a time. A synthetic drug supply originates out of Western and Central Europe: amphetamines, ecstasy, and LSD have been traced to sources in the Netherlands and Poland; some originates in the UK.

The UK helps fund a UN counternarcotics program as well as offering bilateral assistance for drug interdiction efforts in Iran, a key country on the heroin transit route. The UN project covers training and equipment primarily to strengthen counternarcotics work at Iran's borders with Afghanistan and Pakistan. British assistance includes direct training (by HM Customs and Excise) and equipment to strengthen Iran's exit border with Turkey, which fills gaps that the UNDCP's project does not meet.

**Domestic Programs (Demand Reduction).** The UK government's demand reduction efforts focus on school and other community-based programs to educate young people and to prevent them from ever starting on drugs. New guidelines were enacted in November 1998 to help teachers and youth-workers warn young people about the dangers of drugs. The Drug Prevention Advisory Service (DPAS) was established in 1999 to provide school and community teams to give specialist prevention advice to all locally based drug action teams. The Standing Conference on Drug Abuse has also published guidance for teachers on managing drug problems in school, and the Positive Futures initiative set up in March 2000 aims to divert vulnerable young people away from drugs and crime through involvement in sport. Initial results show reductions in criminal activity and truancy and improved community awareness.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** Law enforcement cooperation between the United States and the UK is excellent and growing. The U.S. and UK governments have conducted periodic consultations at the senior level since 1989 to coordinate and harmonize policies, plans and programs on all counternarcotics fronts. 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. Cooperation from the Channel Islands and Isle of Man has improved significantly in the past few years.

**The Road Ahead.** The United States looks forward to continued close cooperation with the UK on all counternarcotics fronts. The impact of events in Afghanistan on heroin supply to the UK could be quite significant, especially if the poppy ban announced by the Interim Authority can be implemented successfully.



# Uzbekistan

## I. Summary

Uzbekistan is primarily a transit country for opiates and cannabis originating in Afghanistan. Well-established trade routes facilitate the transit of these narcotics to Russia and Europe. There is a small, but growing market for heroin, especially among rural populations. The Government of Uzbekistan (GOU) has shown its commitment to eliminating the narcotics trade, but lacks the appropriate resources, personnel, and training to complete this enormous task. According to the National Center for Drug Control, law enforcement officers seized a total of 405.8 kilograms of illegal narcotics in the first six months of 2001, the most recent period for which statistics are available. 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

While there is no significant drug production in Uzbekistan, several transshipment routes for opium, heroin, and hashish originate in Afghanistan and cross Uzbekistan 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 2001. The volume of narcotics crossing Uzbekistan continues to grow. Effective government eradication programs have eliminated nearly all illicit production of opium poppies in Uzbekistan.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In January 2001, the Cabinet of Ministers passed a Resolution entitled “On the Licensing of Activities Connected with the Circulation of Narcotics, Psychotropic Substances and Precursors,” which entered into force on March 1, 2001. The Resolution was in response to international demands to address the problem in Uzbekistan and assists in implementing a project on precursor chemicals sponsored by the UN Office of Drug Control and Crime Prevention (UNODCCP).

Special committees within the Ministry of Health and the Ministry of Internal Affairs in consultation with National Center for Drug Control, are authorized to issue licenses to enterprises or individuals involved in the importing, exporting, and transit of precursors. The Licensing Resolution also contains requirements on oversight of storing precursor chemicals, production of existing narcotics, and the development of new substances. The nontransferable licenses are good for up to five years. The Ministry of Health issues quarterly reports that are fed into a national database, which contains information regarding the number of licenses issued, the identity of the recipients of the licenses, the activities undertaken under the licenses, and the substances to which the licenses relate.

According to the coordinator of the UNODCCP precursors project, the implementation of the Licensing Resolution in 2001 was fairly smooth. There are, however, still a few issues to be addressed, including the determination of the minimum quantity (i.e., one liter, ten liters) of a precursor substance that should be considered controlled for domestic movement and the need to bring product labeling into accordance with international standards.

On August 14, 2001, the GOU and the USG signed a letter of agreement (LOA) on narcotics control and law enforcement assistance. Under the LOA, the USG has provided funding for projects to enhance the ability of Uzbek law enforcement agencies to combat narcotics trafficking and organized crime.

**Accomplishments.** The passage of the 2001 Licensing Resolution reflects Uzbekistan’s serious commitment to comply with the 1988 UN Drug Convention. The Resolution will make the transportation of illegal precursor material through Uzbekistan more difficult. By regulating and monitoring all legitimate

activities involving precursor materials, the GOU hopes to clamp down on the flow of precursors to Afghanistan and Pakistan.

Uzbekistan continues to take steps to comply with the 1988 UN Drug Convention's goals on combating illicit cultivation and production within its borders. The annual "Black Poppy" eradication campaign has virtually eliminated illicit poppy cultivation in Uzbekistan. According to Ministry of Internal Affairs officials, there are no reports of significant narcotics production in Uzbekistan. Efforts to achieve other goals of the 1988 UN Drug Convention goals are hampered by the lack of effective laws, programs, money, appropriate international agreement, and coordination among law enforcement agencies.

Other UNODCCP projects underway in Uzbekistan are "Strengthening the Capacities of the Drug Law Enforcement Agencies of Uzbekistan in Data and Information Collection," "Strengthening Drug Law Enforcement Capacities in Data and Information Collection in Central Asia," "Preparatory Assistance on Demand Reduction: Rapid Situation Assessment of Drug Abuse in the Central Asian Countries," and "Preparatory Assistance on Demand Reduction: Needs Assessment on Drug Abuse in Central Asia."

**Law Enforcement Efforts.** Preliminary statistics from the National Center for Drug Control show that in the first six months of 2001, Uzbek law enforcement seized a total of 405.8 kilograms of illicit drugs. The amount of confiscated heroin accounts for nearly half of that total. Three agencies with separate jurisdictions have counternarcotics responsibilities: the Ministry of Internal Affairs (MVD), the National Security Service (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 the Customs Committee works at the border. Despite this apparently clear delineation of responsibilities, the lack of operational coordination diminishes the effectiveness of counternarcotics efforts. The National Center for Drug Control was designed to minimize mistrust, rivalry, and duplication of efforts among the agencies. The Center has had limited success in doing so to date, despite its mandate to oversee coordination under the 2000 narcotics law.

None of the law enforcement agencies specialize in counternarcotics. The MVD, although it has 140 officers dedicated to counternarcotics, is also the national police force with the full range of law enforcement responsibilities. The NSS is successor to the KGB and includes foreign intelligence and counterespionage in its portfolio. The Customs Committee gave a higher priority to counternarcotics in 2001.

According to National Center reports, there was increased attention focused on investigating major traffickers and their organizations. Smuggling rings are relatively small, family-run operations, with no single group controlling any single region or the whole country. Most groups are located on the border between Uzbekistan and Tajikistan, where family members can cross the border more easily. There is also some smuggling through Turkmenistan into Uzbekistan.

Lack of money for equipment and training remains the greatest difficulty faced by all three agencies. They therefore rely heavily on international assistance from the UNODCCP, United States, UK, and other countries to improve their capacities. Basic necessities, such as uniforms, footwear, and reliable all-terrain vehicles to replace aging Soviet-era equipment, remain in short supply.

**Corruption.** There were no major narcotics-related corruption cases in 2001. Nonetheless, due to inadequate salaries for law enforcement officials, especially at lower levels, corruption and bribery remain a problem and are sometimes related to narcotics. The National Center reports officers involved in drug trafficking are prosecuted to the full extent of the law.

In August, the Procuracy was appointed the lead agency for all criminal investigation matters, particularly corruption cases. Previously, depending on the nature of the crime, other agencies conducted most investigative work. Corruption, organized crime, national security violations, major crimes, and terrorism fell under the purview of the NSS. Now, to demonstrate investigative independence and avoid the appearance of bias or favoritism, the Procuracy conducts corruption investigations.

**Agreements and Treaties.** Uzbekistan is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Uzbekistan has signed the Central Asian Counternarcotics Memorandum of Understanding with the UNDCP. In 1994, Kazakhstan, Kyrgyzstan, and Uzbekistan formed the Central Asian Economic Commission, which included pledges to cooperate in the battle against illegal drugs. In April 1998, Tajikistan joined the group. These four countries signed an agreement in September 1999 on cooperation in combating transnational crime, including narcotics trafficking. The five Central Asian countries, Azerbaijan, Georgia, Iran, Pakistan, and Turkey are also members of the Economic Coordination Mechanism supported by the UNDCP.

Uzbekistan is party to the Commonwealth of Independent States multilateral extradition and mutual legal assistance agreements and has bilateral agreements with several other states. Uzbekistan and the United States signed a letter of agreement in August 2001, under which the United States is providing 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 2000, President Karimov committed to bilateral counternarcotics cooperation with China. Uzbekistan signed the UN Convention against Transnational Organized Crime in December 2000 and signed the Protocol to Prevent, Suppress and Punish Trafficking in Persons and the Protocol against the Smuggling of Migrants in June 2001.

**Cultivation/Production.** The government's eradication efforts, named "Operation Black Poppy," has all but eliminated illicit opium poppy cultivation in Uzbekistan.

**Drug Flow/Transit.** Several major transnational trade routes facilitate the transportation of opiates and cannabis from Afghanistan to Russia and Europe. Until recently, the Afghan-Uzbek border crossing at Termez was closed, thus most narcotics transiting Uzbekistan entered Uzbekistan from Tajikistan. There is also some smuggling through Turkmenistan into Uzbekistan. Uzbek transport police and Customs Committee officials regularly apprehend drug smugglers on the Dushanbe-Moscow train.

Since the beginning of 2001, the National Center reports that drug seizures along the borders have decreased while seizures within Uzbekistan have increased. According to the head of the Center, this change resulted from traffickers using new, undetected routes across borders. Narcotics shipments are not interdicted until they reach transshipment points within the country. According to Center statistics, the overall number of narcotics smuggling-related crimes decreased by 40 percent during the first six months of this year compared with the same time period in 2000. The head of the Center attributed at least part of this decrease to improved interdiction operations in Tajikistan. He noted an increase in narcotics seizures on the Tajik side of the border, preventing the passage of shipments into Uzbekistan.

Chemical precursors originating in Russia and Ukraine, bound for laboratories in Afghanistan, have transited Uzbekistan in the recent past. However, there were no significant seizures of precursors in 2001.

**Domestic Programs (Demand Reduction).** According to the Ministry of Health (MOH), the number of registered addicts as of July 1, 2001, was 16,660. There are no official estimates for unregistered addicts. Unofficially, the number of registered addicts reflects only ten to 15 percent of the actual drug addicts in Uzbekistan. Hospitals with drug dependency recovery programs are inadequate to meet the increasing need. The MOH and National Drug Control Center recognize the need to focus increased attention on the problem but do not have sufficient funds to move forward. Drug awareness programs are administered through schools and the mahalla (neighborhood) support system. The data collected by UNODCCP, as part of projects on demand reduction (Rapid Situation Assessment and Needs Assessment on Drug Abuse), is currently being analyzed. Prisons, schools, and hospitals were among the institutions surveyed.

#### **IV. U.S. Policy Initiatives and Programs**

**Bilateral Cooperation.** The USG is providing the GOU with assistance designed 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. In 2001, the USG provided training and equipment to the Customs Committee, the MVD, the NSS, and the Procuracy.

The USG assisted Uzbekistan's counternarcotics effort in several ways, including FBI seminars attended by Uzbek law enforcement, focused on investigating computer crimes, organized crime, and internal control mechanisms; the U.S. Customs Service conducted a two-week training course for contraband enforcement teams with Uzbek Border Guards and Customs Committee; the DEA organized seminars dealing with precursor chemicals, regional drug enforcement, and airport narcotics interdiction; and the U.S. Coast Guard conducted a riverine planning conference, followed by a riverine operations seminar to strengthen Uzbekistan's anti-smuggling capabilities.

**The Road Ahead.** U.S. in-country advisors will work with all appropriate Uzbek agencies to improve narcotics detection and drug interdiction, and U.S. training and commodity assistance will be increased.

# Yugoslavia, Federal Republic of

## I. Summary

The Federal Republic of Yugoslavia (FRY) remains a transit country for illegal drugs moving along the Balkan route from Western Asia to Europe and beyond. Ten years of economic sanctions and political isolation have created an enforcement gap that the drug trade has been able to exploit. A lack of funds and modern equipment severely hinders proper monitoring of goods transiting the FRY. FRY law enforcement authorities are working to close the enforcement gap and make the FRY unattractive as a drug transit country. The FRY is a party to the 1988 UN Drug Convention.

## II. Status of Country

The Balkans is an important corridor for the drug trade from Turkey and the Middle East to Western Europe and beyond. The FRY remains a viable and well-used segment of this corridor, and the FRY is a country of concern to the United States. The break-up of the former Yugoslavia, the growth of smuggling during the war, and the FRY's subsequent economic and political isolation weakened enforcement of the country's borders. A decade of economic sanctions further reduced the FRY's technical ability to monitor its borders, thereby making the FRY an attractive drug transit route. With the exception of marijuana, the FRY does not appear to have problems with drug production and cultivation or the production of precursor chemicals.

Drug transit is the main problem in the FRY. In 2001, FRY authorities seized varying quantities of heroin, cocaine, marijuana, and MDMA (ecstasy). The FRY government has expressed concern over maintaining control over the porous border between Kosovo and Albania, and problems associated with the unrest in Kosovo and southern Serbia. FRY officials also note the difficulty of controlling the FRY's border with Montenegro. In this regard, the Montenegrin government, which espouses a pro-independence policy, has strictly limited cooperation with federal authorities.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In 2001, the FRY government committed to cooperating with and becoming a member of INTERPOL.

**Accomplishments.** The FRY opened an INTERPOL office in Belgrade and appointed a Yugoslav representative to the office. The FRY government also established an counternarcotics task force to act as a coordinating and think-tank-type body in their war on drugs.

**Law Enforcement Efforts.** FRY authorities reported 3,060 seizures in 2001, up from 2,307 in 2000. As a result of the seizures, FRY authorities confiscated 2,350 kilograms of marijuana, 60 kilograms of heroin, 10,435 ecstasy tablets, 590 grams of hashish, and 2.5 kilograms of cocaine. FRY police reported that arrests were made in all cases and convictions sought. However, a loophole in Yugoslav laws, allowing for the possession of these drugs if for personal use only, negatively effected conviction rates. Police and customs officials worked jointly to combat drug smuggling in the FRY.

**Corruption.** Press reporting does not indicate that members of the current regime are involved in the drug trade. However, in March 2001, FRY police officers reportedly seized 600 kilograms of pure heroin stored in the safety deposit boxes of a Yugoslav bank by members of former Yugoslav leaders Slobodan Milosevic's regime, suggesting significant corruption of the Milosovic regime.

**Agreements and Treaties.** The FRY has ongoing customs agreements with Russia, Romania, Bulgaria, Hungary, and Macedonia. The 1902 U.S.-Yugoslav extradition agreement remains in effect. The FRY is a

party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. The FRY ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants on September 6, 2001.

**Cultivation/Production.** Serbian police report that approximately 90 percent of the marijuana seized in Yugoslavia is grown in country, while the remaining 10 percent is imported from Albania. The police report that this marijuana is grown for distribution inside Yugoslavia. The remaining narcotics were imported to or transiting Yugoslavia.

**Drug Flow/Transit.** FRY police claim that the “Balkan” drug trade route (Turkey-Bulgaria-Hungary-Yugoslavia-Austria) is still operating and that 85 percent of the drugs seized in Yugoslavia were in transit to Western Europe and onward. The police report that the majority of the drugs transit the FRY via roads, but that some of the drugs enter Yugoslavia from Romania, crossing into the FRY via the Danube River. According to the police, planes and air traffic are not extensively used for drug trafficking. The FRY police believe that Albanian marijuana is being smuggled into the country through Kosovo.

**Domestic Programs (Demand Reduction).** The FRY, despite severe budgetary problems, is engaged in an counternarcotics campaign aimed at educating elementary-age school children about the dangers of drugs. A key aspect of this campaign is posters illustrating drugs available in the FRY. They are distributed to schools for use with classroom instruction on the subject. The FRY is also engaged in a public affairs campaign using television ads and billboards to negatively portray drug use.

#### IV. U.S. Policy Initiatives and Programs

The United States currently does not have any bilateral programs with the FRY. However, consultations and information sharing has begun between the United States and Yugoslav officials in furtherance of both the war on drugs and the war against terrorism.

# **AFRICA AND THE MIDDLE EAST**





# Angola

## I. Summary

Angola does not have significant drug production, trafficking, or use. Cannabis is cultivated and consumed locally, but in relatively modest quantities. Angolan drug counternarcotics officials report seizures of cocaine coming from South America, which they believe was headed for South Africa. Nigerian traffickers appear involved in this cocaine traffic predominantly from Brazil to South Africa. Angola is the only Southern African Development Community member that has not signed the SADC counternarcotics protocol.

## II. Status of Country

Angola is not a major center of drug production, trafficking, money laundering, or precursor chemical diversion, and it is not likely to become one. In 2001, despite serious resource constraints, the Angolan National Police increased dramatically the amount of cocaine and cannabis they seized. The police attributed the increased number of seizures to the ever-greater emphasis they placed on drug seizures and greater awareness of Angola as a transshipment point for cocaine.

## III. Country Actions Against Drugs in 2001

Angola has not signed the SADC counternarcotics protocol. There have been no reported cases of public corruption connected to narcotics trafficking.

Although Angola has enacted legislation mandating treatment for those convicted of narcotics use, no public treatment centers are available. Angola cooperates with South Africa in fighting the flow of cocaine from Angola to South Africa, and South Africa has offered training and equipment to the Angolan police. Angola also cooperates on a regional basis via SADC, despite its failure to sign the drug protocol. Angola has signed the UN Convention against Transnational Organized Crime.

## IV. U.S. Policy Initiatives and Programs

FY 2001 marked the first time the State Department has offered centrally funded anticrime and counternarcotics training programs for Angola; the USG intends to continue to offer counternarcotics law enforcement training to Angolan enforcement officials, especially at ILEA-Gaborone. This stems, in part, from agreements reached during the Bilateral Consultative Commission meetings in which Angola expressed strong interest in receiving law enforcement training. As such, the U.S. Embassy in Luanda is establishing a system for managing a continuing U.S. narcotics training relationship with Angola.

# Benin

## I. Summary

Benin is a transit route for illegal narcotics moving through West Africa, but it is not a major narcotics producing country. Illegal drug trafficking and GOB drug seizures continued throughout the year. The GOB is seeking to implement a national counternarcotics policy and national action plan, as well as to coordinate drug enforcement operations through the Central Office Against Illegal Drug Trafficking (OCERTID). Benin is a party to the 1988 UN Drug Convention.

## II. Status of Country

Benin is not a major producer of drugs or a source of precursor chemicals. This is not likely to change. The Benin Direction of Pharmacies has a special unit to control precursor chemicals that works with the National Laboratory for Narcotics Control, but the unit seems poorly organized and administration of the unit is weak. The laboratory has reported problems with the functioning of its chemical control equipment and it is unlikely that procedures currently in place present any great challenge to motivated smugglers of precursor chemicals.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Ministry of Interior completed the draft of a comprehensive national counternarcotics policy and developed a detailed national action plan in 2000. In December 2000, Benin's leading counternarcotics enforcement officials and government leaders convened a roundtable to discuss counternarcotics priorities and to identify ways to finance, support, and implement the GOB's counternarcotics policy. Frustrated by a profound lack of resources, authorities in Benin plan thoroughly, but then are forced to acknowledge that plans must remain theoretical until resources become available to implement them.

The GOB has not yet established the infrastructure or legal apparatus to enforce its comprehensive counternarcotics law enacted in 1997. The law is based on the UNDCP model, which is designed to bring countries into compliance with the 1988 UN Drug Convention. It criminalizes money laundering and provides for stronger sentences for narcotics offenses, asset forfeiture, and inter-agency cooperation in narcotics law enforcement.

**Accomplishments.** Clarification and elaboration of the national counternarcotics action plan was this year's major accomplishment. The GOB's national action plan identifies ten counternarcotics strategies to be implemented over the next six years. The plan has three major objectives:

- Improve the strategies to combat the use of illegal drugs;
- Reinforce current programs to fight against illegal drug production and trafficking;
- Develop strategies to prevent drug abuse and provide for the treatment and rehabilitation of drug abusers.

The national counternarcotics policy identifies six priorities and four complementary programs. The six priorities are:

- Coordinate the national effort against illegal narcotics;
- Provide additional resources for the national drug laboratory;

- Provide additional resources to law enforcement agencies, increasing their drug intervention capabilities;
- Reinforce smuggling controls at the Port of Cotonou, Benin's major shipping port);
- Develop programs to prevent drug use and to treat drug abusers; and
- Create a national health center for drug abusers.

Complementary projects focus on illegal drug production, prescription drug abusers/traffickers, prevention programs for single families, and the creation of a canine brigade.

**Law Enforcement Efforts.** The country's porous borders permit African drug traffickers, primarily Nigerian nationals, to transit Benin freely and to access its ports at will. This ease of access has made Benin a transshipment point for the regional and sub-regional narcotics trade in heroin, cocaine, and cannabis. The large Lebanese community in Benin organizes and operates an important part of the drug trade. Some ethnic South Asians living in Benin also traffic in heroin from Afghanistan via Pakistan. In most instances, the different traffickers work with Benin nationals who act as couriers in the distribution/sale process. The retail price per gram ranges from 17,000-25,000 CFA (African Franc) (U.S. \$23-\$34) for cocaine, 9,000-20,000 (U.S. \$12-\$27) for heroin and 300-500 CFA (U.S. \$40-\$70) for marijuana. Even though Nigerian nationals control the drug trafficking activities in Benin, more than 60 per cent of traffickers arrested in 2001 were Benin nationals.

The law enforcement agency with primary responsibility for combating narcotics smuggling and drug abuse is the recently created OCERTID. The OCERTID reports to the director general of the national police, and works with customs, the gendarmes, and the national police drug units. The OCERTID so far has reported no cases of law enforcement involvement in illegal narcotics trafficking.

In 2001, the United States and the GOB signed a letter of agreement (LOA) relating to counternarcotics assistance in 2001. Through this LOA, the Department of State's Bureau for International Narcotics and Law Enforcement Affairs granted Benin two machines used for the detection of concealed narcotics for use at the airport and will provide appropriate training. Although this is a small step, it demonstrates the GOB's commitment to improving the interdiction ability of its law enforcement agencies, with U.S. assistance.

In 2001, Beninese enforcement officials seized 810,830 kilos of cannabis, 13 kilos of cannabis resin, 31.74 kilos of cocaine, 414 grams of opium, 5.2 kilos of LSD, and 79 grams of heroin. No drug traffickers have been extradited to date. Fifty-two traffickers were sentenced to imprisonment in 2001: 35 Beninese, 11 Nigerian, 1 French, 4 Niger nationals, and 1 Ivoirian.

**Corruption.** The press, civil society, and some senior government officials themselves charge there are corrupt elements in government. Twenty-three magistrates to date have been arrested or are being detained for allegations of taking bribes and engaging in corrupt practices. Numerous officials at the Port of Cotonou were arrested last year for a variety of improprieties in a surprise raid launched by the Minister of Finance. Press reports hinted at problems with the disposition of drug evidence (i.e., disappearance of seized drugs), but the exact extent of corruption and its impact on law enforcement and counternarcotics operations is difficult to assess, partly because resistance to oversight reform still persists within many government entities.

**Cultivation/Production.** Benin produces a small amount of cannabis for local consumption. It is the only narcotic produced in Benin and is cultivated throughout the country, particularly in hard to access marshy areas and along the borders with Nigeria and with Togo.

**Agreements/Treaties.** Benin has a quadripartite counternarcotics agreement with Togo, Ghana, and Nigeria. In addition to being a party to the 1988 UN Drug Convention, Benin is a party to the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. In December 2000, Benin signed the UN Convention

against Transnational Organized Crime and the Protocol to Prevent, Suppress and Punish Trafficking in Persons. A drug enforcement cooperation agreement between France and Benin is in force and bolsters Benin's counternarcotics efforts.

**Domestic Programs (Demand Reduction).** From November 2000-February 2001, an inter-ministerial team (Comité Interministeriel de Lutte Contre l'Abus de Stupefiants-CILAS) toured several Departments of Benin to discuss demand reduction. The team visited secondary schools, railway stations, and other spots where they hoped to access drug users or those in danger of becoming drug abusers. This hands-on approach seems to be more effective than spot radio and TV messages, but funds available to support it are starkly limited. The Ministry of Justice also has a program to reduce the use of marijuana by prison inmates. Several NGOs have drug education programs and run treatment for drug users. The Lion's Club International has an education/rehabilitation program, and there is also an NGO-managed SOS drug hotline.

**Drug Flow/Transit.** Benin is an important transit/staging point for Southeast Asian heroin being smuggled to Nigeria for onward transport to Europe and the United States, and for South American cocaine being transported to Nigeria en route to Europe. There is no evidence that the heroin that enters the United States from Benin is sufficient to have a major impact on the United States. Marijuana from Nigeria transits Benin on its way to other African countries. Nigerians dominate most drug trafficking activities in Benin. In addition to transiting the country overland, drugs depart the country via Cotonou's airport and seaport.

#### IV. U.S. Policy Initiatives and Programs

**U.S. Goals and Objectives.** The primary objective of the U.S. government is to combat the transit of drugs to the United States and Europe. The goal is to build on successful counternarcotics cooperation efforts, focusing on prevention, interdiction, prosecution, and treatment.

**The Road Ahead.** Benin is beginning to seriously address the drug problem in the region by implementing coordinated counternarcotics measures. This is obviously the first step down a long road. The U.S. government must continue to engage Benin on the complex issues of counternarcotics enforcement, asset forfeiture, abuse education, and training, particularly in the area of money laundering, and other focused assistance. Border and port control measures are two obvious priority areas, as is increased training of enforcement personnel.

# Botswana

## I. Summary

Botswana is not a major producer of illicit drugs or precursor chemicals, and it is not a significant drug-transit country. Isolated pockets of marijuana cultivation occur, but eradication efforts keep production levels low. Botswana is a party to the 1988 UN Drug Convention and is the site of Southern Africa's International Law Enforcement Academy (ILEA).

## II. Status of Country

Botswana is not a major illicit drug producer or a significant drug-transit country, despite an increase in the overall amount of cannabis seized and concern over its porous borders. In 2001, drug control officials seized sizable amounts of cannabis, as well as small amounts of crack cocaine. Due to an increase in the number of drug-related arrests in Botswana, drug control officials are concerned about an upsurge in drug trafficking and abuse. Cannabis remains the drug of choice due to its low price. Individuals caught with drugs in Botswana can expect fines and prison sentences, but most arrests do not result in conviction.

## III. Country Actions Against Drugs in 2001

The Government of Botswana created a National Drug Control Coordination Council, chaired by the Office of the President, in 1998. The Government of Botswana also has strict legislation against drug production, drug trafficking, and money laundering, whether associated with the drug trade, terrorism, or other illicit activity. Botswana courts mete out stiff sentences for drug-related offenses, with mandatory sentences of one to five years' imprisonment for possession of fewer than 60 grams of cannabis, and five to ten years for possession of more than 60 grams. Relatively few of the 378 cases in 2001 in which individuals were arrested for cannabis use proceeded to trial; the authorities preferring leniency to strict pursuit of punishment.

The number of seizures of drugs in Botswana increased markedly in 2001. Police seized over 1,200 kilograms of cannabis during 2001, mostly from Zimbabwean traffickers. (Cannabis seized from Zimbabwe is now thought to originate in Mozambique, rather than from Zambia, as it was thought in 2000.) In 2001, police seized what they believe to be the third of three shipments of cocaine that originated from Brazil, which transited South Africa before it arrived in Botswana. Most of the cocaine entering Botswana for domestic use is believed to be crack cocaine. The BPS (Botswana Police Service) also has reported four cases of illicit cannabis cultivation, resulting in the seizure of 2 kilograms of cannabis. The BPS reports good cooperation on narcotics control with its regional partners, especially South Africa and Zimbabwe. The 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 corruption.

Botswana is a party to the 1988 UN Drug Convention, the 1971 Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention on Narcotic Drugs.

## IV. Policy Initiatives and Programs

The U.S.-sponsored ILEA offered its first course of instruction in September 2001. The ILEA program includes modules on narcotics interdiction. Regional police officials anticipate more cooperation with the USG as ILEA programs continue to develop. Police officials note that they are concerned that Botswana's porous border with Zimbabwe may lead to increased drug trafficking through Botswana. The GOB

recently sent units of the Botswana Defense Force (BDF) to replace the Special Branch of the BPS in conducting alien interdiction on the Zimbabwe border, due to concerns about increased crime in Francistown, where the Special Branch forces were located.

# Cote D'Ivoire

## I. Summary

With the most fully developed economy in West Africa and significant opportunities for corruption at all levels, Côte d'Ivoire's ports, airport, porous borders, and communications infrastructure remain open to drug traffickers. Seizures of heroin and cannabis, as well as seizures of licit pharmaceuticals destined for illegal distribution increased in 2001. The target market for most of the narcotics passing through Côte d'Ivoire (principally heroin) remains Europe, with a smaller share ending up on the North American market. The quantity of narcotics that transit Côte d'Ivoire en route to North America is not sufficient to have a significant impact on the United States. Two years of political instability have detracted from Ivoirian law enforcement's ability to account for seizures and local consumption and interrupted development of new counternarcotics legislation. U.S. support to Ivoirian counternarcotics efforts was stopped after the Christmas coup of 1999. As political stability returns, authorities speak of new initiatives against narcotics and corruption, but resources are lacking. Côte d'Ivoire is a party to the 1998 UN Drug Convention.

## II. Status of Country

Abidjan, the business and industrial capital of Cote d'Ivoire, is a major West African financial center and a regional hub for shipping. Cote d'Ivoire's corruption-plagued ports handle a variety of contraband, including narcotics and weapons. Air travel through Côte d'Ivoire has been curtailed with the withdrawal of three major European airlines and the financial collapse of Air Afrique. This loss of service has probably decreased the utility of Abidjan's airport as a transit point for drugs. Despite improvements to airport facilities and security, airport operating budgets and training remain problematic. The ongoing conflict in neighboring Liberia adds to the pressure for corruption, with players in that conflict paying off officials in Cote d'Ivoire to gain passage for diamonds leaving the region and weapons entering.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Drug enforcement authorities await the re-commencement of the African Anti-Drug Program, an EU initiative that was suspended two years ago due to the political situation. The program was the principal source of guidance and resources for Ivoirian counternarcotics efforts. There are no new unilateral initiatives within the Ivoirian government, which maintains an underfunded training program at Grand Bassam. The special narcotics police remain a low funding priority.

**Accomplishments.** Because of political instability and minimal funding for counternarcotics initiatives, there were no significant accomplishments during the reporting period. The Ivoirian government has negotiated with the EU to restart the African Anti-Drug Program, but results will not be realized until 2002.

**Law Enforcement Efforts.** Given limited resources, the Ivoirian government has not made an effort to strengthen the counternarcotics police or the national prosecutor's office with personnel or budgetary increases or new training. The administrators of the Felix Houphouet-Boigny International Airport in Abidjan have modernized the terminal, increased visible security measures, and implemented a more accountable access badge system. During the first nine months of 2001, seizures of heroin and cannabis increased, and the trend for heroin seizures since 1998 shows a steady yearly increase. Enforcement officials do not know whether this represents better police work or an increase in heroin trafficking. Figures for cocaine seizures are inconsistent, but seem to show a declining trend in the past four years. Cannabis figures are likewise inconsistent for the four-year period, but appear stable or increasing. Despite resource constraints, arrests have increased. 605 individuals were reported arrested through September 30,

2001. All 11 persons arrested in 2001 for trafficking “hard” drugs (i.e., cocaine, heroin) were not Ivoirian nationals (nine Nigerians, one Togolese, and one Gambian). Authorities have also seized considerable quantities of licit pharmaceuticals destined for illegal distribution, reporting seizures of 42,592 valium tablets, 68 kilograms of valium in other forms, and an assortment of other medications, both in pill and unprocessed form.

**Corruption.** Corruption continues to hamper Ivoirian counternarcotics efforts. The Office of the National Prosecutor did not report a single prosecution for official corruption during the reporting period. Senior counternarcotics police officials report that some lower ranking officials view counternarcotics assignments as desirable because these assignments provide officials opportunities to earn additional income by accepting bribes. The same is true for some security officials at the airport, ports, and borders.

**Agreements and Treaties.** Côte d’Ivoire is a party to the 1961 UN Single Convention on Psychotropic Drugs, the 1972 Protocol amending the Single Convention, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Côte d’Ivoire has signed but not ratified the UN Convention against Transnational Organized Crime. Côte d’Ivoire is also party to several regional agreements regarding narcotics suppression and control, negotiated among members of the West African Economic Cooperation Association. Officials report discussions of a new West African counternarcotics regime with Ghana, Nigeria, and other interested West African states. However, the effort is nascent, and no written proposals have been made.

**Cultivation/Production.** Cannabis is the main drug produced internally in Côte d’Ivoire. It is grown in small plots, mixed in with legal plantings, throughout southern Côte d’Ivoire. It is processed and sold at retail levels in small quantities by small dealers. Cities remain the principal destination and distribution points. Law enforcement officials will destroy illegal plantings when discovered, but search and destroy missions are not a priority. Law enforcement officials do not keep records on seizures and volume destroyed at this level of production and do not estimate the total production of cannabis. Police report that there have been no discoveries of processing laboratories for heroin, cocaine, or synthetic substances in Côte d’Ivoire.

**Drug Flow/Transit.** Ivoirian law enforcement officials do not keep statistics on the flow of drugs through Côte d’Ivoire; information is anecdotal and informal. Based on limited seizures at Felix Houphouët-Boigny International Airport, authorities believe that Nigeria and Pakistan are points of origin for trafficking in heroin via human mules (balloon swallowers) and smuggled packages. The drugs interdicted are usually passing through Abidjan en route to Europe. Major ports in Abidjan and at San Pedro in western Côte d’Ivoire are also thought to be easy transit points, though it is not known how often these ports are used. Côte d’Ivoire’s international borders are porous to passage of all manner of contraband into, through and out of the country due to the corruption of local officials, who supplement meager government salaries with sale of passage. Police officials also report use of the Ivoirian postal system for retail size shipments of drugs, generally heroin and cocaine, which are then sold locally.

**Domestic Programs (Demand Reduction).** The principal organization to fight the spread of drug use in Cote d’Ivoire, the Regional Education Center for the Fight Against Drugs (CRFLD), is a sub-ministry office in the Interior Ministry. This poorly funded but energetic office is the focal point for government and citizen efforts to discourage drug use. There are no high-visibility public campaigns against drug use in Côte d’Ivoire, though smaller efforts are evident at times. At the national prosecutor’s office, the drug problem is not viewed as a significant threat to Ivoirian society. The EU has not funded its demand-side program headquartered in Abidjan, which provided western expertise in demand and addiction issues, since the 1999 coup.



### IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** The principal U.S. policy aim continues to be to minimize Côte d'Ivoire's attractiveness to drug smugglers, and thereby reduce the overall flow of illegal drugs through the country, through transit control and anticorruption measures.

**Bilateral Cooperation.** There are no U.S.-Ivoirian joint projects to control drug production, consumption or trafficking through Côte d'Ivoire. Funding for all such projects was suspended in early 2000 after the December 1999 coup d'état and has not been resumed.

**The Road Ahead.** Both police and prosecutors see drug consumption and trafficking as steadily increasing problems. However, internal consumption is simply not viewed by the Ivoirian government as a high enough priority to receive a significant share of limited government resources. As long as the principal U.S. policy interest remains interdiction of drugs transiting Côte d'Ivoire en route to the United States and Europe, material and training assistance to Ivoirian authorities would be the most constructive measures to be taken. The Ivoirian authorities would welcome joint initiatives to train, motivate, and help equip counternarcotics police and banking investigators.

# Egypt

## I. Summary

The Arab Republic of Egypt is not a major producer, supplier, or consumer of narcotics or precursor chemicals. Heroin and cannabis are transported through Egypt, but at decreasing levels in 2001. The Anti Narcotics General Administration, the main drug fighting organization, is competent and progressive and it cooperates fully with the DEA office in Egypt. Egypt is a party to the 1988 UN Drug Convention.

## II. Status of Country

Although opium and cannabis are grown in Egypt, Egypt is not a significant producer or consumer of narcotics or precursor chemicals. The substances most commonly abused in Egypt are cannabis, known locally as “BANGO,” and legitimate pharmaceuticals.

Narcotics destined primarily for Western Europe, with small amounts headed for the United States, do pass through Egypt, but this transshipment route continued to diminish in 2001. There is no evidence of significant levels of narcotics reaching the United States through Egypt. Egypt’s long and mostly uninhabited borders combined with the high level of shipping passing through the Suez Canal have made Egypt prone to the transshipment of Asian heroin. Narcotics also pass through Cairo International Airport periodically.

The Egyptian Anti Narcotics General Administration (ANGA) is considered to be the oldest narcotics unit in the Arab world. ANGA has jurisdiction for all criminal matters pertaining to narcotics and maintains offices in all major Egyptian cities, airports, and ports. The U.S. DEA office in Egypt has a superb relationship with ANGA. The DEA’s ANGA counterparts are open, cooperative, and receptive to ideas and training. DEA country attachés have seen progressive improvements in ANGA’s capabilities compared to its limited resources. The DEA assists ANGA in smuggling interdiction operations in the Suez Canal Zone and at Cairo Airport, as well as in crop eradication operations in the Sinai Peninsula and Upper Egypt. The DEA has facilitated training for ANGA officers at regional narcotics training courses in Nairobi, Kenya, and provided in-country training on airport interdictions.

## III. Country Actions Against Drugs in 2001

The Government of Egypt (GOE) continues to aggressively pursue a comprehensive drug control strategy which was developed in 1998. ANGA, the Egyptian Ministry of Interior, Coast Guard, Customs Service, and select military units all cooperate in task forces designed to interdict narcotics shipments. Government and private sector demand reduction efforts exist but are hampered by financial and logistical challenges.

**Accomplishments.** In 2001, the GOE implemented a law passed in 2000 allowing ANGA to keep a portion of the assets seized from narcotics traffickers to support interdiction operations. Final figures on assets seized in 2000 and 2001 are not yet available. In 1999, over 21 million Egyptian Pounds (LEG) were seized (approximately U.S. \$5.1 million at an average exchange rate of 4.25 LEG to U.S. \$1).

**Law Enforcement Efforts.** Internal security and combating terrorism are the major focus of Egyptian law enforcement efforts. However, ANGA operates an effective program of investigating and targeting significant drug traffickers, intercepting narcotics shipments, and detecting and eradicating illegal crops. Large-scale seizures and arrests are rare primarily because Egypt does not have a large narcotics market or narcotics abuse culture. In addition to other government and private sector demand reduction programs, ANGA operates its own drug awareness campaign. ANGA’s Eradication Unit conducts monthly operations against cannabis and opium crops in the Sinai. Despite mixed results from a crop substitution

project in the Sinai, the amount of illegal crops was smaller in 2001. Final 2000 figures from ANGA report 27,898 criminal cases involving 29,612 defendants.

**Corruption.** There does not appear to be serious narcotics-related corruption in Egypt. Only low-level local police officials have been identified and arrested. The GOE has strict laws and harsh penalties for government officials convicted of involvement in narcotics trafficking or related activities.

**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, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The U.S.-Egypt Mutual Legal Assistance Treaty entered into force on November 29, 2001. Egypt has signed but not ratified the UN Convention against Transnational Organized Crime.

**Cultivation and Production.** Cannabis is grown year round in the northern and southern Sinai and in upper Egypt. Opium is grown in the southern Sinai from February through March. The UNDCP reports that opium production in Egypt has been declining while cannabis production has increased. Rugged terrain requires plots of illegal crops to be small and irregularly shaped. ANGA uses aerial observation and confidential informants to identify illegal plots and then conducts daylight eradication operations which consist of cutting and burning the plants. ANGA has yet to implement a planned herbicide eradication program. No heroin processing plants have been discovered in Egypt in the last 11 years. There is no evidence that opiates or cannabis grown in Egypt reach the United States in sufficient quantities to have a significant effect on the United States.

**Domestic Programs (Demand Reduction).** In 2001, the GOE indicated it planned to revive the dormant National Council for Treatment of Addiction and Against Drug Abuse. Should the National Council become active, it would be an inter ministerial group chaired by the Prime Minister with the Minister of Social Affairs as his representative. Currently, most addicts are still treated by private doctors. The Ministry of Health and Ministry of Education, along with several religious organizations, operate drug awareness programs oriented toward demand reduction. The Ministry of Health is also a co-sponsor with the Ministry of Interior of a separate national counternarcotics campaign. These programs are aimed at school-aged children and rely on the mass media. DEA country attachés also assist the GOE with a drug awareness campaign.

#### IV. U.S. Policy Initiatives and Programs

The U.S. counternarcotics policy in Egypt is to engage the GOE in a bilateral program to reduce narcotics transshipment and decrease opium and cannabis cultivation. The policy is supported by the following specific objectives:

- Increase training to ANGA and other government offices responsible for narcotics enforcement.
- Assist with the identification of illegal crop eradication targets.
- Improve narcotics interdiction methodology.
- Improve intelligence collection and analysis.

**The Road Ahead.** In FY 2002, the U.S. government plans to provide the GOE with additional training in police science, anticorruption measures, and border control operations. The DEA country office will continue to work closely with ANGA to improve interdiction and eradication techniques, and to develop additional sources of information on trafficking and production.

# Ethiopia

## I. Summary

Ethiopia does not play a major role in the production of illicit narcotics or precursor chemicals associated with the drug trade. Ethiopia is strategically located along a major narcotics transit route between Southwest Asian heroin production and European markets and West African trafficking networks. Cannabis is grown in Ethiopia, but most is consumed in rural areas of Ethiopia itself. Recent seizures indicate that opium poppy is being grown in Ethiopia, but only in a few small plots. More heroin is transiting Ethiopia for markets in West Africa, Europe, and the United States. Nigerian traffickers are active in Ethiopia. The Ethiopian Counternarcotics Unit (ECNU) maintains an interdiction team at Bole International Airport, where the ECNU uses its two drug sniffer dogs to examine, with a degree of randomness, cargo and luggage. The ECNU routinely screens passengers, luggage, and cargo on flights arriving from “high risk” origins, i.e., Bangkok, New Delhi, Mumbai, and Islamabad. Ethiopia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Ethiopia is not now, and not likely to become, a significant producer of narcotic drugs or precursor chemicals. A small share of total cannabis is being produced for export, primarily to neighboring countries; the majority is consumed at home, but absolute quantities in both cases are moderate. For the first time, opium poppy was seized at two locations where it was apparently being grown as an experimental crop. Indications are that the techniques for growing the opium came from India and that the appearance of these apparent experimental plots may be explained by a downturn in coffee prices. No opium gum has been found yet.

## III. Country Action Against Drugs in 2001

The use of heroin and other hard drugs remains quite low, due primarily to the high street price and limited availability of such drugs. To the extent these hard drugs are available, it is in large part due to the “spillover” effect from the transiting of drug couriers through Bole International Airport in Addis Ababa. Bole is a major air hub for flight connections between Southeast and Southwest 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, permitting the introduction of these drugs into the local populace.

**Law Enforcement Efforts.** The ECNU has improved upon its performance in 2000. It has changed leadership and been more proactive at the federal level. At the unit level, the ECNU suffers from managerial/leadership problems, although the unit is getting better at following up on leads. The interdiction team at Bole has improved with the provision of several profiling and interdiction courses. The interdiction unit has improved its ability to identify male Nigerian/Tanzanian drug “mules” who traditionally swallow drugs to smuggle them. The ECNU also followed up on tips and discovered and eradicated two plots of opium poppy cultivation in remote areas. Follow up is limited to assistance provided by the United States, and the local budget does not allow for field operations.

**Policy Initiatives.** The Ethiopian Ministry of Justice is still updating the penal code, but the updated code could become law in the next three months. 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 coordinate systematically counternarcotics activities of the Ministries of Education, Health, and Justice. There is no master plan for drug issues.

**Corruption.** There is no evidence of government corruption relating to illicit drugs. The Anti-Corruption Commission, created in May 2001, has been given substantial police powers to investigate corruption, and is attracting considerable attention with some high profile cases. In 2001, the Ethiopian government arrested and charged ministerial level government officials for corruption unrelated to drugs, and it is likely the government would address drug-related corruption in the same way.

**Agreements and Treaties.** Ethiopia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Ethiopia has signed the UN Convention against Transnational Organized Crime.

### **IV. U.S. Policy Initiatives and Programs**

The United States introduced no major policy initiatives in 2001, except for initiatives in the areas of money laundering and asset seizure related to terrorist finances. In those areas the United States, through the U.S. Embassy in Addis Ababa, is trying to raise the profile of the issue and encourage criminalization of money laundering.

The focus has remained on the law enforcement side, 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.

# Ghana

## I. Summary

Ghana combats illicit trafficking of narcotic drugs and psychotropic substances and mounts major efforts against drug abuse. It has active enforcement, treatment, and rehabilitation programs. Ghana-U.S. law enforcement coordination continues, and saw several successes in 2001. 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. Europe remains the major destination, but drugs also flow to South Africa and to North America. Accra's Kotoka International Airport is increasingly a focus for traffickers. Ports at Tema and Sekondi are also used. Border posts at Aflao (Togo) and Elubo and Sampa (Côte d'Ivoire) see significant traffic. Nigerian traffickers continue to strengthen their presence in Ghana as it becomes a major transportation hub. Trafficking fuels increasing domestic consumption. Cannabis use is increasing in Ghana, as is local cultivation. The government mounts significant public education programs. Production of precursor chemicals is not a major problem.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The Narcotics Control Board (NCB) coordinates government efforts involving counternarcotics activities. These activities include enforcement and control, education, prevention, treatment, rehabilitation, and social re-integration. The NCB's counternarcotics national strategy, the "National Plan of Action 1999-2003," was submitted to the Cabinet in April 2001, and awaits formal approval. Amendments that the NCB proposed in 1999 to the 1990 narcotics law still await attention. Further proposed amendments include stricter application of bail bond system sanctions.

**Accomplishments.** The NCB and other law enforcement agencies continued their successful cooperation with U.S. law enforcement agencies. Most notably, this resulted in the extradition of two suspects (one on narcotics charges and the other on armed robbery charges) to the United States. The NCB's national drug education efforts increased in schools and churches, heightening citizens' awareness of the fight against narcotics and traffickers. Ghana attended a UNDCP-sponsored conference for heads of law enforcement organizations in Nairobi.

**Law Enforcement Efforts.** The police's Criminal Investigative Division's (CID) narcotics unit based in Accra undertakes counternarcotics operations and prosecutions alone or in joint operations with agents of the NCB. NCB agents are not armed; they rely upon the CID in situations requiring armed force. Regional NCB narcotics squads are located at Kumasi, Koforidua, Ho, and Tema. New NCB offices opened in 2001 at CID headquarters in Accra, Accra Regional Police headquarters, and Kotoka International Airport (Accra). The Customs Excise and Preventative Service (CEPS) headquarters has a counternarcotics unit, with counternarcotics squads at two border posts, Aflao (Togo) and Elubo (Côte d'Ivoire), and at Kotoka International Airport. The government has authority to seize equipment and property, generally upon conviction; several cases are now before the courts.

Figures show a substantial increase in cocaine-related seizures but a decrease in cocaine arrests in 2001. (Figures for arrests and seizures in 2001 for cocaine, heroin, and marijuana are for January through September only, and final figures for the year will be greater.) A gram of cocaine of average purity sells for cedis 105,000 (approx. U.S. \$15).

Figures show an increase in heroin-related seizures but a decrease in heroin arrests. A gram of heroin of average purity sells for cedis 155,000 (approx. U.S. \$22). Greater interdiction efforts may have raised the street price from year 2000.

Cannabis-related arrests decreased. Cannabis seizures appear roughly on track with those in 2000, which were double that of 1999. (Seizure figures for 2000 have been revised sharply upward. Preliminary figures from NCB last year under-reported quarterly results.) A kilogram of cannabis sells at cedis 15,000 (approx. U.S. \$2.10). A wrap or joint sells at approx. cedis 500 (approx. U.S. \$.07).

The police narcotics unit and the NCB have worked closely with the INS's regional office in Accra. Fruitful exchanges of information resulted in several successful investigations. The INS detected one fugitive from U.S. justice coaching visa applicants at the Embassy consular section; arrested by local police, he was later extradited. The NCB continued to work with DHL and Federal Express to intercept packages containing narcotics.

**Corruption.** In 2001, there were no narcotics-related public corruption cases reported. The new government's "Zero Tolerance" policy on all forms of public corruption has led to several high-profile prosecutions involving present and past government officials (none involve narcotics).

**Agreements and Treaties.** Ghana is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. U.S.-Ghana extradition relations are governed by the 1931 U.S.-U.K. Extradition Treaty, to which Ghana acceded at its independence. Additionally, Ghana is a party to the Economic Community of West African States (ECOWAS) Protocol Agreement, which includes an extradition provision.

**Cultivation and Production.** Cannabis (also known as Indian hemp) is easily available and abused widely. Cultivated in rural farmlands, there is a ready market in urban areas. The Volta, Brong-Ahafo, Western, and Ashanti regions are principal growing areas. Most is consumed locally; some is trafficked to neighboring and European countries. Cannabis is usually harvested in September and October, and law enforcement teams increase their surveillance and investigation efforts at these times. Combined NCB and police teams continue to investigate production and distribution, and to destroy cultivated cannabis farms and plants. The NCB believes a local drug laboratory processing cannabis into hashish now exists. Efforts to locate it continue.

**Drug Flow/Transit.** Cocaine and heroin are the main drugs that transit Ghana, chiefly from South America, and Southeast and Southwest Asia. Narcotics are sometimes repackaged for reshipment to the United States and Europe. New methods of concealment in 2001 included hiding drugs in room air conditioners, rice cookers, and women's brassieres. While, in absolute terms, drugs transiting Ghana do not yet contribute significantly to the supply of drugs to the U.S. market, Accra is an increasingly important transshipment point from Africa. Direct flights from Accra play an important role in the transshipment of heroin to the U.S. by West African trafficking organizations. For example, these flights account for the largest quantity of heroin seized at John F. Kennedy Airport in New York from Africa. Indications are that the trafficking is on the rise, with Nigerian-based trafficking organizations at the heart of the problem.

The NCB believes Nigerians dominate local cocaine and heroin trafficking routes, often using Malian passports. Many traffickers land in Mali and travel overland to Ghana. Liberian and Sierra Leonan refugees resident in Ghana also participate. Couriers from Curacao, arriving on flights from Europe, are also a concern. Ghanaian passports, easily obtainable, are often used fraudulently. Smugglers often purchase their tickets in Ghana because the exchange rate favors their currencies.

**Demand Reduction.** The NCB works with schools, professional training institutions, churches, local governments, and the general public. A draft Drug Education Policy is now before the government for use in all schools. The NCB continues its work with Drug Free Clubs in secondary schools throughout the country, and with the Ghana Education Service and its counseling and welfare units to oversee drug

education efforts. The Ministries of Health and Education further coordinate their efforts through their representatives on the Board. The NCB also worked with numerous church groups during the year with its Sensitization Program. It has now conducted drug education programs with 106 of the country's 110 districts assemblies, and with such entities as the Ghana Institute of Management and Professional Training and the Regional Maritime Academy. The NCB once again participated in the International Day Against Drug Abuse in June. It frequently hosts public lectures, participates in radio discussion programs, and encourages newspaper articles on the dangers of drug abuse and trafficking. The NCB continues its collaboration with the UNDCP's Regional Office for West and Central Africa; the UNDCP's Rapid Situation Assessment of 1999 forms the basis for this cooperation.

Although treatment programs have lagged behind preventative education and enforcement due to lack of funding, there are three government psychiatric hospitals receiving drug patients, and three private facilities in Accra, run by local NGOs, also assisting drug abusers.

#### **IV. U.S. Policy Initiatives and Programs**

**U.S. Goals and Objectives.** The USG's counternarcotics and anticrime goals in Ghana are to strengthen Ghanaian law enforcement capacity generally, to improve interdiction capacities, to enhance the NCB's office and field operation functions, and to reduce Ghana's role as a transit point for narcotics.

**Bilateral Cooperation.** The DEA in Lagos and the INS in Ghana conducted a joint training program for NCB and CID narcotics officers during the summer. In December, a letter of agreement (LOA) between the United States and Ghana, under which the U.S. agreed to provide \$84,000 in equipment to the NCB, was approved. Also in December, the Ministry of the Interior and the U.S. Embassy signed an amendment to the LOA to provide \$294,500 for various law enforcement programs, including provision of narcotics detection devices for Kotoka International Airport. This amended LOA will be submitted to Parliament for approval not later than early 2002.

**The Road Ahead.** Improved narcotics interdiction, investigative capabilities, and prosecutorial successes sum up the USG's major policy goals. A focus on improved oversight of financial transactions and intervention in suspicious cases is a particular concern, particularly given the potential for any narcotics financial networks to be used by terrorist organizations. Internal affairs units for the police and CEPS would assist in purging them of unwanted elements, and ensuring united efforts against the scourge of drugs.



# Iran

## I. Summary

The Islamic Republic of Iran is a major transit route for opiates smuggled from Afghanistan and through Pakistan to the Persian Gulf, Turkey, Russia, and Europe. There is no evidence that narcotics transiting Iran reach the United States in an amount sufficient to have a significant effect on the United States. Iran is no longer a major drug producing country. An extensive 1998 U.S. survey concluded that the amount of opium poppy cultivation in Iran was negligible, down from an estimated 3,500 hectares in 1993. A follow-up survey in 1999 reached the same conclusion. Since then, an office of the UNDCP in Iran has repeatedly assured the international community that poppies are not cultivated in Iran. However, Iran remains a country of concern to the United States because of the quantity of drugs transiting Iran and the possibility, albeit remote, that poppy cultivation could re-commence. There is overwhelming evidence of Iran's strong commitment to keep drugs moving out of Afghanistan from reaching its citizens, and as Iran strives to achieve this goal, it certainly also prevents drugs from reaching markets in the West. Nevertheless, as with all former major illicit drug producing countries, the USG continues to watch closely for evidence of renewed poppy cultivation or evidence that drugs transiting Iran reach the United States in significant quantities.

Opium addiction in Iran has long historical roots, and it is a major social and health problem for the Islamic Republic's government. The Iranian government (GOI) estimates that about two percent of Iran's 65.6 million citizens (1,312,000) are regular drug abusers (drug-dependent addicts), but such observers of drug abuse worldwide as the UNDCP view this estimate as low. Other sources (including informed observers working on drug abuse in NGOs in Iran) estimate that as many as three million Iranians abuse drugs, with perhaps 500-600 thousand "casual" (i.e., non dependent) users. The GOI seems particularly concerned over the sharp increase in intravenous drug abuse; deaths from drug abuse increased by 60 percent to 611 individuals in the first four months of 2001. Inmates in prison and the homeless are the most likely to take drugs by intravenous injection and to contract HIV through sharing needles. Sixty-nine percent of all recorded HIV cases are associated with drug abuse.

The GOI has demonstrated a sustained political commitment to combating narcotics. Iran has been in the forefront of efforts by the international community to combat the Afghan drug trade. In 2000 alone, 65 Iranian law enforcement officers died in efforts to combat drug trafficking, and 3,000 law enforcement personnel have died in clashes with heavily armed drug traffickers over the last two decades. Iran spends a significant amount on drug-related expenses, estimates range from \$250-\$300 million to as much as \$800 million each year, depending on whether treatment and other social costs are included. Iran has made more efforts to combat the Afghan drug trade than any other country. Opiate drug seizures during 2001 were 207 metric tons of opium equivalent, quite a large seizure number in comparison to international seizure statistics, and still down sharply from recent-year seizures on the order of 450 metric tons of opium equivalents. Drug trafficking from Afghanistan under the Taliban became a serious security concern in Iran, with significant killing, kidnapping, and intimidation of villagers along Iran's border with Afghanistan.

Iran has ratified the 1988 UN Drug Convention, but its laws do not bring it completely into conformity with the Convention. The UNDCP is working with Iran to modify its 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. Drugs are also smuggled by sea across the Persian Gulf. Iran is no longer a major drug-producing country; according to the UNDCP, there are no reports indicating illicit narcotics cultivation in Iran.

One of the most significant developments in Iran during 2001 was the sharp increase in the price of opium. During the first quarter of 2001, the street price of opium in Iran quadrupled from its year-end 2000 level. The price of opium stayed at this sharply higher level through September 2001. Statistics for the final three months of 2001 are not yet available, but reports that a large quantity of stored opium left Afghanistan in late September/early October likely mean that opium prices declined toward the end of the year. The leap in the opium price was apparently due largely to the ban on poppy cultivation in Taliban-controlled areas of Afghanistan, which sharply reduced opium production. But effective Iranian drug law enforcement also, no doubt, played a role.

### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** There are indications of a drug control policy debate in Iran. Over the last several years, the great majority of budgeted expenditures on narcotics went to enforcement. Some voices in Iran are calling for more to be spent on treatment and drug education to reduce demand. These advocates note that up to 60 percent of Iran's growing population of intravenous drug abusers is HIV positive. They also express concern about the sharp increase in deaths attributable to drug abuse. An abrupt and/or large shift in expenditures is unlikely, but the changes in Afghanistan could encourage the continuing policy debate in Iran and contribute to a shift in policy, as heavily armed trafficking and attendant kidnapping of villagers and clashes with Iranian security forces abate.

**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 pursues an aggressive border interdiction effort. A senior Iranian official told the UNDCP that Iran had invested as much as \$800 million in a system of berms, channels, concrete dams, sentry points, and observation towers, as well as a road along the entire eastern border. According to an official GOI Internet site, Iran has installed 212 border posts, 205 observation posts, 22 concrete barriers, 290 km of canals (depth-4m, width-5m), 659 km of soil embankments, a 78 km barbed wire fence, and 2,645 km of asphalt and gravel roads. It also has relocated numerous border villages to newly constructed villages.

Thirty thousand law enforcement personnel are regularly deployed along the border, and Iran reports that more than 3,000 law enforcement officials have been killed in clashes with heavily-armed smugglers during the last two decades. Interdiction efforts by the police and the Revolutionary Guards have resulted in numerous drug seizures. According to the UNDCP, Iranian officials seized 444 metric tons of opiates (opium equivalent) in 2000, and 207 metric tons of opiates (opium equivalent) in 2001. Thus, seizures fell by roughly fifty-four percent in 2001 in comparison to 2000. The sharp decline in seizures, accompanied by a sharp increase in price indicates that much less opium was moving from Afghanistan into Iran during 2001, with tight supplies most evident during the first six-nine months of the year.

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 five 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 frequently in recent years. Offenders between the ages of 16 and 18 are afforded some leniency. At the end of 2001 forty-seven percent of the inmates in Iranian prisons were incarcerated for drug offenses, ranging from use to trafficking. There were 83,308 inmates with drug-related convictions at the end of 2001. Primarily as a result of a sharp (36 percent) increase in the number of addicts arrested, narcotics-related arrests in Iran during 2001 increased to 311,984, an increase of almost 16 percent over 2000. Iran has executed more than 10,000 narcotics traffickers in the last decade;

executions continue, but the UNDCP reports that many in Iranian judiciary are questioning the deterrent effect of executions.

**Corruption.** Although there is no indication that senior government officials aid or abet narcotics traffickers, there are periodic reports of corruption among lower-level law enforcement, which is consistent with the transit of multiple-ton drug shipments across Iran. Punishment of corruption appears to be harsh, and the evidence of Iran's commitment to keep drugs from its people is compelling.

**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. The 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 on Narcotic Drugs, and it has signed but not ratified the 1972 Protocol amending the Single Convention. Iran became a party to the 1971 UN Convention on Psychotropic Substances on August 9, 2000. In addition, Iran has signed bilateral counternarcotics agreements with Azerbaijan, Bangladesh, India, Kazakhstan, Kuwait, Nigeria, Pakistan, Qatar, Russia, Turkey, and Turkmenistan. Iran has shown an increasing desire to cooperate with the international community on counternarcotics matters and recently signed separate quadripartite memoranda of understanding on money laundering and drug control with Armenia, Georgia, and the UNDCP, as well as Azerbaijan, Georgia, and the UNDCP. 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 the UNDCP and Pakistan on a reasonably successful project to bolster drug interdiction efforts on the Iran-Pakistan border. Iran is a member of the ten-nation Economic Cooperation Organization (ECO), which established a counternarcotics center as part of its secretariat. In March, the Iranian permanent envoy to the UN's Commission on Narcotic Drugs (CND) was elected by a large majority to chair the CND for a one-year term. Under his able leadership, the CND developed a reporting and evaluation program to follow up on commitments made at the 1998 UNGA Special Session on Drugs. Iran has been active participant on counternarcotics issues through the UN's "Six Plus Two" process on Afghanistan, and signed the Six Plus Two Regional Action Plan in September. Iran signed the UN Convention against Transnational Organized Crime on December 12, 2000.

**Cultivation/Production.** A 1998 U.S. survey of opium poppy cultivation in Iran and a detailed multi-agency assessment concluded that the amount of poppy being grown in Iran was 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. The UNDCP office located in Tehran has repeatedly assured the international community since then that poppies are not cultivated in Iran. Thus, the dated U.S. evidence that no poppies are being grown is consistent with Iranian claims and evidence from other concerned countries and the UNDCP.

Iran is generally viewed as a transit country for drugs produced elsewhere, but there are some reports of opium refining near the Turkish/Iranian border. Most refining of the opiates moving through Iran is certainly done elsewhere, either in Afghanistan or in Turkey.

**Drug Flow/Transit.** Shipments of opiates enter Iran overland from Pakistan and Afghanistan by camel, donkey, or truck caravans, often organized and protected by heavily armed ethnic Baluch tribesmen from either side of the frontier. Once inside Iran, 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 force smugglers to change tactics and emphasize concealment. The use of human "mules" reportedly is on the rise. Individuals and small groups attempt to cross the border with two to ten kilograms of drugs.

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. There is a northern smuggling route through Iran's

Khorasan Province, to Turkmenistan, to Tehran, and then on to Turkey. The mountainous, desert, sparsely settled nature of this route makes it hard to police. Traffickers are frequently well-armed and dangerous. The southern route also passes through sparsely-settled desert terrain on its way to Tehran en route to Turkey; some opiates moving along the southern route detour to Bandar Abbas and move by sea to the Persian Gulf states. Bandar Abbas also appears to be an entry point for precursor chemicals moving to refineries in Afghanistan. Iran does not specifically control precursor chemicals used for producing illicit drugs; however, Iranian Customs seized in excess of 20 metric tons of diverted acetic anhydride (AA), a key precursor for heroin, during 2001. Azerbaijan and Armenia provide alternative routes to Russia and Europe that bypass Turkish interdiction efforts. Additionally, despite the risk of severe punishment, marine transport is used through the Persian Gulf to the nations of the Arabian Peninsula, taking advantage of modern transportation and communication facilities and a laissez faire commercial attitude in that area. Iranian enforcement officials have estimated that as much as 50 percent of the opium produced in Afghanistan in past years entered Iran, with as much as 700-800 tons of opium consumed in Iran itself by 1.8-2 million users (median estimate).

As measured by seizures, the United States is an important destination for drugs mailed from Iran. In 2000, the United States led all other destinations for drugs mailed to a foreign destination, but seized by Iranian authorities in Iran (28 cases, involving seizures of 6.7 kilograms of various drugs, primarily opiates). Canada was the second most common destination, with 5.4 kilograms seized. The UK was the third most common destination, with 4.7 kilograms seized. The amount of drugs moving to all destinations by mail and courier service is miniscule, and seizures of some of these shipments before they leave Iran provide the only evidence of this smuggling method.

**Domestic Programs (Demand Reduction).** The Government of Iran estimates the number of drug addicts at over 1.3 million, with an additional 600,000 casual drug abusers. However, a physician and member of the national committee against AIDS have estimated that there are 3.3 million addicts. The UNDCP estimates that 1.5 to two percent of a population of 65.6 million (984,000-1,312,000) has a serious drug problem. Ninety-three percent of these are male, with a mean age of 33.4 years (plus or minus 10.5 years), and 1.4 percent (ca. 21,000) 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 spent 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 12 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 and several NGOs focus on drug demand reduction. 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 has no narcotics initiatives in Iran. The U.S. government continues to encourage regional cooperation against narcotics trafficking. Iran and the United States have expressed similar viewpoints on illicit drugs and the regional impact of the Afghan drug trade. In the context of multilateral settings such as the UN's Six Plus Two group, the United States and Iran have worked together productively. Iran nominated the United States to be coordinator of the Six Plus Two counternarcotics initiative.

**The Road Ahead.** The GOI has demonstrated sustained national political will and taken strong measures against illicit narcotics, including cooperation with the international community. Iran's actions support the global effort against international drug trafficking. Iran stands to be one of the major benefactors of any long-term reduction in drug production/trafficking from Afghanistan. The United States anticipates that

Iran will continue to pursue policies and actions in support of efforts to combat drug production and trafficking.

# Israel

## I. Summary

Neither trafficking nor drug production are significant problems in Israel. However, the Israeli National Police report that all the commonly abused drugs are available in Israel and that drug use is on the rise among the nation's youths. Several hundred Israelis are currently involved in international narcotics trafficking worldwide, specifically in the smuggling of MDMA (ecstasy) from Europe to the United States, as well as cocaine trafficking. Israeli authorities stepped up ongoing cooperation with USG officials during 2001 and made dozens of arrests of drug traffickers. The Israel Anti-Drug Authority (ADA) has refocused its domestic programs toward at-risk youth groups.

Israel in 2001 enacted nine sets of regulations to implement anti-money laundering legislation passed in 2000 and plans to have a Money Laundering Authority operational early in 2002. Israel has signed the 1988 UN Drug Convention and plans to ratify it in early 2002. Israeli domestic law already implements the Convention's requirements.

## II. Status of Country

Israeli narcotics trafficking rings have been increasingly involved in the smuggling of ecstasy from its point of production in Europe (primarily the Netherlands) to the U.S. over the past several years. Israeli authorities have been fully cooperative with USG officials, who describe information sharing at an all-time high. During 2001, U.S. DEA officials and Israel National Police authorities worked closely with European counterparts and dozens of arrests of drug traffickers were made. Israeli authorities also allowed DEA officials to participate in several arrests in Israel this year, and extradition proceedings are under way in several cases.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In May 2001 the Israeli Police Commissioner set up a committee to review drug enforcement policy. The committee is headed by the Deputy Director of the Intelligence Division of the Israel National Police and includes representatives from police investigations, intelligence, and research units, and officials of the ADA and other entities. The committee's report was released at the end of 2001.

**Cultivation/Production.** There is only negligible illicit drug cultivation or production in Israel.

**Law Enforcement Efforts.** U.S. DEA officials in Cyprus report that more than two dozen arrests were made this year as a result of three strategic planning meetings held during 2001. These meetings focused on the trafficking of narcotics, specifically ecstasy. Included in those arrested this year was Oded Tuido, the largest ecstasy trafficker known to authorities at the time. Meeting participants included the Israel National Police, U.S. DEA, U.S. Customs, and European security officials. Information sharing with Israeli authorities was higher than ever. The INP opened 17,658 files on drug-related crimes from January to September, a two percent increase over the 17,351 cases opened during the same period last year. This reflects a sharp decline in the ten to 20 percent annual average increase over the past decade. Seizures also were generally down. According to the police, these decreases are a result of the shift of police focus away from drug-related crime to internal security matters during 2001.

This year Israeli Customs authorities participated in several international operations: "Pompidou" on cooperation among airports, "Topaz" on control of chemical substances used for the manufacturing of heroin, and "Sinbad" on surveillance of small sailing vessels in the Mediterranean sea basin. Operation Topaz resulted in the seizure of tens of tons of acetic anhydride abroad (not en route to Israel), which was in transit to illegal laboratories for the purpose of manufacturing heroin. Operation Sinbad resulted in the

seizure of 3.5 tons of hashish in transit from Morocco to Spain. Israeli Customs works with Israeli police and shares intelligence with the World Customs Organization. In May 2001 the Israeli Police Commissioner set up a committee to review drug enforcement policy. The committee's report was released at the end of 2001.

**Corruption.** Israel has had no cases of narcotics-related government corruption, nor is there any explicit or implicit official support for narcotics-related activities. Israel does not have legislation for public corruption specifically relating to narcotics, but it punishes corruption in all government matters when proven.

**Agreements and Treaties.** In 2000 Israel passed legislation against money laundering, clearing the last legal hurdle to ratifying the 1988 UN Drug Convention. The Government of Israel is now completing internal administrative processes to ratify the Convention and plans to complete the process in early 2002. In 1991 the U.S. and Israel signed a memorandum of understanding calling for bilateral cooperation to combat illicit narcotics trafficking and abuse. A dual taxation treaty entered into force between the U.S. and Israel in 1994, which grants U.S. tax authorities limited access to bank account information. Israel is a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. A customs mutual assistance agreement and a mutual legal assistance treaty are also in force between Israel and the U.S. In December 2000 Israel signed the UN Convention against Transnational Crime and it is in the process of undergoing the necessary domestic review prior to ratification. In November 2001, Israel also signed the Protocol to Prevent, Suppress, and Punish Trafficking in Persons, supplementing this convention. Israel is a party to the European Convention on Mutual Legal Assistance in Criminal Matters. Israel is one of 36 parties to the European Treaty on Extradition and has separate extradition treaties with several other countries, including the U.S. Under the Israeli extradition law, as recently amended, all persons, whether citizens or not, may be extradited for purposes of standing trial for extraditable offences. If the requested person was both a citizen and resident of Israel at the time the offence was committed, he may be extradited to trial abroad only if the state seeking extradition promises in advance to allow the person to return to Israel to serve any sentence imposed. Israel is party to a number of other bilateral and multilateral agreements that allow for extradition and asset seizure. Israel cooperates with the UNDCP.

**Drug Flow/Transit.** Most drugs imported to Israel are consumed domestically. Israel is not a major drug flow/transit country, although Israelis play a considerable role in international drug trafficking networks in source, transit, and distribution countries. Israeli Customs seized 1.9 kilograms of cannabis, 31.9 grams of opium and heroin, 2 kilograms of cocaine, 206 ecstasy pills, 2,055 LSD stamps, and 391 grams of other unspecified substances at ports of entry during the first nine months of 2001.

**Domestic Programs (Demand Reduction).** The ADA sets Israeli drug policy, and works in the areas of prevention, education, public awareness, treatment, and rehabilitation. Many other entities take part in the fight against drug use, including youth movements, sports organizations, kibbutzim, and NGOs. The ADA budget was cut from approximately U.S. \$9.5 million during 2000 to approximately U.S. \$8 million for 2001, due to overall budget cuts in Israel. According to the ADA, there are 200,000-250,000 drug users in Israel. Of those, some 20,000-25,000 are heroin addicts. ADA officials remain concerned about increasing use of recreational drugs (primarily ecstasy) among the nation's youth. The ADA launched a national public campaign against ecstasy during 2001. The ADA continues to focus its efforts toward youth generally considered high risk (new immigrants from the former Soviet Union and Ethiopia, Israeli Arabs, and "detached" youths, i.e., dropouts). ADA programs for youths include peer counseling, sports and other recreational activities, and a new computer program currently being adopted for school use. These programs are designed to prevent delinquency, create "alternatives" for youths, and to teach "life skills," as well as "the ability to say no."

The ADA launched a new program for drug-addicted women during 2001 which is showing positive results. It has also initiated an experimental program for users of hallucinogenic substances who have

mental disorders as a result of drug abuse. The ADA is also beginning a new program to increase awareness within the country's Arab sector, where it reports a relatively high percentage of drug abuse.

### **IV. U.S. Policy Initiatives and Programs**

**The Road Ahead.** DEA officials were pleased with the arrests and seizures made during 2001 and intend to further crack down on ecstasy and cocaine trafficking rings through increased cooperation. USG and Israeli authorities will continue to conduct strategy sessions throughout 2002. The USG will also seek to increase extradition activities during 2002. Some Israeli enforcement personnel attended U.S. training during 2001, and joint training opportunities should also be available in the future.



# Jordan

## I. Summary

Jordan's domestic drug abuse problem remains small due largely to the active enforcement of existing laws, and cultural and religious norms which help limit the use of illegal drugs. Jordan remains a transit country for drugs due to its pivotal location between drug-producing countries to the north, and drug-consuming countries to the south and west. Cooperation between Jordan and neighboring countries, particularly Lebanon and Syria, is ongoing and robust. Cooperation with Israel decreased significantly due to ongoing Israeli-Palestinian hostilities. Jordan is a party to the 1988 UN Drug Convention and looks forward to working closely with the EU and the United States on drug transit issues.

## 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. The modest amount of drug seizures and drug use reported seem to support this assessment.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In December 1999, Jordanian officials announced a government wide project entitled "The National Plan to Combat Drugs and Psychotropic Substances." The duration of the project was originally scheduled from 1999 through 2001. An extension to include the year 2002 was recently announced with an estimated budget for Jordan of U.S. \$3 million. The plan encompasses three main objectives: prevention, enforcement, and treatment.

**Law Enforcement Efforts.** Jordan's Public Security Directorate maintains an active Anti-Narcotics and Counterfeiting Bureau. In an effort to enhance enforcement, this bureau added an additional 14 officers in 2001, bringing the total of counternarcotics officers to approximately 250. To prepare for better treatment and prevention measures, the unit's deputy director attended a Canadian-sponsored conference geared toward the challenges of treatment.

Law enforcement and drug policy officials report an increase in the amount of hashish seized in Jordan for 2001. Officials attribute this success to the tough enforcement by the Public Security Directorate's Anti-Narcotics and Counterfeiting Bureau. Members of this bureau cite a very close working relationship with Lebanon, the purported source country, to eradicate hashish trafficking. Further, bureau members report a vigorous, cooperative, and ongoing drug enforcement effort with Syria and Saudi Arabia.

Statistics provided by enforcement officials for 2001 indicate more than a doubling in seizures of cannabis (from approximately 300 kilograms in 2000 to approximately 800 kilograms in 2001). They attribute this increase in seizures to the cooperative efforts between Lebanon and Jordan. These same Jordanian officials hope to further enhance their existing counternarcotics agreement with Turkish enforcement officials and improve efforts to combat the trafficking of opium and heroin.

**Corruption.** Jordanian officials report no narcotics-related corruption or corruption investigations during the past year. There is currently no evidence to suggest that senior officials are involved in narcotics trafficking.

**Agreements and Treaties.** Jordan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Jordan remains committed to existing bilateral agreements providing for counternarcotics cooperation with Syria, Lebanon, Iraq, Saudi Arabia, Turkey, Egypt,

Pakistan, and Hungary. Although the United States views a 1995 bilateral extradition treaty as being in force, Jordan has failed to honor any U.S. extradition requests since a 1997 Jordanian Court of Cassation (Appeals-Level Court) ruling that the Jordanian Parliament had not properly approved the treaty. The United States has repeatedly urged Jordan 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 Narcotic Cases.

**Cultivation/Production.** Existing laws prohibit the cultivation or production of narcotics in Jordan. These laws have been effectively enforced, aided by Jordan's desert climate which precludes the cultivation of many plants containing narcotic or psychotropic substances.

**Drug Flow/Transit.** Jordan remains a transit country for illicit drugs. Jordan's most challenging burden remains the long, open, and often desolate borders with neighboring countries to the north. While law enforcement sources point to robust and effective enforcement efforts with Syria and Lebanon, the vast array of nomadic tribes associated with trafficking often eludes the most sophisticated efforts of interdiction. None of the drugs that transit Jordan are believed to be destined for the United States.

Statistics for 2001 reveal a reduction in the amount of opium and heroin that transits Jordan. Cannabis seizures have increased. These seizures have been due in large part to the efforts of Lebanon and Jordan to cooperate fully on cross border issues. Statistics also reveal continued seizures of captagon tablets (an amphetamine-type stimulant) destined for Saudi Arabia. In the past, transit problems to Israel were prevalent, but the ongoing hostilities in Israel have provided very limited opportunity for cooperation with Israeli authorities, so it is uncertain what drugs might still move in that direction.

**Precursor Chemical Control.** There are no reports on the production of precursor or essential chemical control agents in Jordan. There were no reported seizures or smuggling of pre-cursor chemicals in Jordan during 2001. The Jordanian Government does have in place a reasonable system of controls on precursor chemicals, and works closely with its neighbors and major trading partners to counter any attempts at diversion.

**Domestic Programs (Demand Reduction).** The Ministry of Education and Health makes presentations to school-age youths, conducts awareness briefings, and produces lecture materials on prevention, awareness, and addiction. In 2001, the Ministry opened the National Rehabilitation Center. The new treatment facility in Shafra Beida, a suburb of Amman, has 60 beds available for treatment.

As always, cultural and religious norms are an important factor in drug use. The counternarcotics unit is committed to providing information on illicit narcotics to the Ministry of Moslem Affairs and Holy Places, which directs religious speeches, lessons, and lectures on awareness of drugs and their effects.

## IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** The Jordanian government is committed to its efforts, highlighted in the National Anti-Drug Plan, to combat drugs and psychotropic substances. Counternarcotics officials report that the government is also committed to prevention, treatment, and enforcement as a general policy to combat the use and spread of drugs.

**Bilateral Cooperation.** Jordan's Anti-Narcotics and Counterfeiting Bureau has a close working relationship with the DEA's country attaché in Cyprus.

**The Road Ahead.** The United States expects continued cooperation with Jordanian enforcement and policy officials on counternarcotics matters, and is confident in Jordan's initiatives and efforts to creatively implement Jordan's own national strategy to combat drugs of abuse.

# Kenya

## I. Summary

Kenya is a transit country for heroin and hashish, mostly en route from Southwest Asia and headed for Europe and North America. The quality of heroin transiting Kenya has increased in recent years and is destined increasingly for North America. The exact impact that heroin transiting Kenya is having on the U.S. market is unclear, since specific quantities are unknown. Cannabis/marijuana is grown clandestinely and illegally imported from neighboring countries for domestic consumption. There is a small local heroin market. Airline passenger profiling and other techniques continue to help reduce airborne heroin shipments. Interdiction of narcotics shipments by sea has been less successful, but a program for profiling shipping containers is in effect. The Kenyan government has approved a long-awaited national drug control master plan. The Anti-Narcotics Unit (ANU) of the Kenyan police continues to cooperate well with international and regional counternarcotics officials. Although government officials profess strong support for counternarcotics 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 an important transit country and a minor producer of narcotics. The quantities of heroin and hashish transiting Kenya, thought to have a relatively small impact on the United States, were on the rise in recent years, but diminished in 2001. Cannabis or marijuana is produced illegally in commercial quantities for the domestic market with there being no evidence that this production has a major impact on the United States. Small quantities of cocaine and other drugs originating outside Africa transit Kenya for consumers in Southern Africa.

Kenya's sea and air transportation infrastructure, and the network of commercial and family ties that link some Kenyans to Southwest Asia, make Kenya a important transit country for Southwest Asian heroin. In 2000, officials noted a dramatic shift from low-purity brown heroin to higher-purity white heroin, and believe that the higher-purity product is destined principally for the United States. This trend continued in 2001. Officials now believe that the United States is at least as significant as Europe as a destination for heroin transiting Kenya. It is difficult to estimate the quantities of heroin reaching the United States through Kenya and therefore to assess its impact on the United States. In recent years, Kenya has been an important transit point for Southwest Asian cannabis resin (hashish), and police made several multi-ton hashish seizures in recent years. However, hashish seizures fell off significantly in 2001. Cocaine seizures were also sharply down in 2001. Kenya does not produce significant quantities of precursor chemicals.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In April 2001, the Kenyan Cabinet approved a national drug control master plan in April 2001. The plan is expected to go before the parliament soon to be enacted. A key element of this plan is the identification of a senior civil servant to liaise with donors and to coordinate a broad counternarcotics effort, including a much-expanded preventative education campaign. This would allow the ANU to concentrate on its interdiction mandate. Regular meetings and information sharing between Kenyan, Ugandan, Tanzanian, and Rwandan narcotics officials continued in 2001. This regional cooperation was advanced in 2001 with the establishment of an East African Community Protocol on combating drug trafficking in the East African region, which Kenya has ratified. Regular meetings among Kenyan counternarcotics authorities also improved internal information sharing and operational coordination between various government agencies, airlines, and other entities. In 2001, Kenyan police officers observed cannabis eradication operations in Uganda and participated in an exchange program on

airport counternarcotics operations with their Tanzanian and Ugandan counterparts. The ANU officers also have continued a program of outreach to judges and magistrates, conducting seminars on counternarcotics law and the full spectrum of narcotics issues. The ANU continued to publicize its message effectively through local media. The ANU also engages in efforts to raise public awareness on drug abuse by giving lectures at schools and to local groups. Aside from crop eradication programs, Kenya has no crop substitution or alternative development initiatives for progressive elimination of the cultivation of marijuana/cannabis. The ANU remains the focus of Kenyan counternarcotics efforts.

**Accomplishments.** Many ANU officers have undergone training, much of it through the UNDCP and bilateral programs sponsored primarily by the U.S., German, British, and Japanese 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 generally with respect to couriers rather than major traffickers. Results at seaports have been modest. The ANU continues to build its surveillance capabilities and is able to carry out increasingly sophisticated operations. Inadequate resources, a problem throughout the Kenyan police force, significantly reduce the ANU's operational effectiveness.

The ANU cooperates with the United States and other nations on counternarcotics investigations and other operations.

**Law Enforcement Efforts.** Kenya seized 18.17 kilograms of heroin in 2001 (all statistics on drug seizures in this section reflect the period from January to September 2001) and arrested 117 people on heroin-related charges. This amount is a reduction from seizures last year, though the number of arrests nearly doubled from last year's figure. Officials report a sharp shift from lower-quality brown heroin to higher-quality white heroin, and report that much of the white heroin transiting Kenya is destined for the United States where traffickers are hoping to gain larger profits. Most couriers arrested in Kenya conceal heroin by swallowing it, though some also hide it in their shoes. The ANU concentrates its anti-heroin operations at Kenya's two international airports.

In a dramatic drop, Kenyan authorities seized only 21 kilograms of hashish in 2001 compared to the 4,715 kilograms that were seized in 2000. Four arrests were made during these seizures. Officials believe Kenyan coastal waters and ports are major transit points for the shipment of hashish from Pakistan to Europe and North America.

2001 marked a significant drop from last year in cocaine seizures. A total of only seven grams of cocaine were seized and four people arrested. The cocaine seized in Kenya is believed to originate from Brazil and Colombia, though its availability and abuse in Kenya is not widespread. Police also arrested one suspect for possession of the psychotropic drug Diazepam.

Kenyan authorities seized 381,085.68 kilograms of cannabis in 2001, and arrested 2,667 individuals. The increase in seizures is attributed to focused operations in the Mt. Kenya region, a major cultivation area. In a week-long operation, police destroyed 14 farms along with 328,362 kilograms of cannabis leaves.

The ANU continued to operate roadblocks for domestic drug trafficking interdiction and is pursuing a variety of policy initiatives for more effective coordination with other government agencies.

**Corruption.** 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 but unconfirmed reports of public officials being involved in narcotics trafficking. Police frequently complain that the courts are ineffective in handling narcotics cases, although it is not clear whether this is a result of corruption, misunderstanding of the law, or simple judicial backlog. More broadly, anticorruption efforts are an integral part of an economic recovery program that was negotiated with the International Monetary Fund and the World Bank in 2000, leading to significant prosecutions that year. However, this effort faltered by 2001 when the Kenyan Anti-Corruption Authority was ruled unconstitutional by the High Court and was dissolved. The future of Kenya's anticorruption initiatives did not appear promising at year's end.

**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. In 2000 Kenya's National Assembly ratified the 1971 UN Convention on Psychotropic Substances. Kenya is also a party to the 1961 UN Single Convention on Narcotic Drugs and the 1972 Protocol amending the Single Convention. Kenya, Tanzania, and Uganda negotiated a protocol to enhance regional counternarcotics cooperation in 2001. The 1931 U.S.-U.K. 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 U.S. donated surveillance and computer equipment to the ANU in 1997. The MOU also provides for sharing of narcotics-related information. The United States and Kenya signed another MOU in 2000 to cover the donation of motorcycles, computers, and related equipment to the ANU. The United States has prepared an amendment to the current MOU in which it seeks to increase its assistance to the ANU.

**Cultivation/Production.** A significant number 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. Officials continue to conduct aerial surveys to identify significant cannabis-producing areas in cooperation with the Kenya Wildlife Service. The State Department did not provide funding for the application of aerial herbicides in 2001, and no aerial eradication efforts were undertaken.

**Drug Flow/Transit.** Kenya is strategically located along a major transit route between Southwest Asian producers of heroin and markets in Europe and North America. In 2001, the amount of heroin seized in Kenya decreased for the first time in four years, although the number of arrests increased from last year's figures. Heroin normally transits Kenya by air, carried by individual couriers. West Africans, South Asians, and East Africans remain active couriers. However, the ANU reports a trend of European couriers trafficking in heroin transiting Kenya to Europe and North America. Once in Kenya, heroin is typically delivered to agents of West African crime syndicates.

The police continue to notice a dramatic shift in heroin trafficking from low-purity brown heroin to high-purity white heroin. Officials attribute the increasing amount of white heroin to increased processing capabilities in Pakistan and Afghanistan during 2001. Officials also say that the shift from brown to white heroin has been accompanied by a shift from the European to the North American market.

Local, regional, and international counternarcotics officials are also paying closer attention to maritime transport of heroin, though no seizures were made from this source in 2001. There is also evidence that poor policing along the East African coast makes this region attractive to maritime smugglers. Kenya's neighbor Somalia has a long coastline and no functioning government. Kenya also has very few maritime interdiction resources.

Postal and commercial courier services are also used for narcotics shipments through Kenya. In the past, Kenya has been a transit country for methaqualone (Mandrax) en route from India to South Africa. Between 1996 and 2000, there had been no Mandrax seizures in Kenya. However, this changed in 2001 when 52,103 Mandrax tablets were intercepted and seven suspects arrested. One person was arrested for possession of the psychotropic substance of Diazepam.

Officials have never identified any clandestine airstrips in Kenya used for drug deliveries and believe that no such airstrips exist.

**Domestic Programs (Demand Reduction).** Kenya has made some progress in efforts to institute programs for demand reduction. Illegal cannabis and a locally abused mild narcotic called "Khat" are the domestic drugs of choice. Heroin abuse is limited generally to members of the economic elite and a slightly broader range of users on the coast. 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 have largely been limited to publicity campaigns sponsored by private donors and a UNDCP project to bring counternarcotics education into the schools. In 2001, however, the Government of Kenya appointed a National Coordinator for the Campaign Against Drug Abuse to initiate national public education programs on drugs. There are no special government rehabilitation or drug abuse treatment facilities, but some churches and NGOs provide limited rehabilitation and treatment programs for solvent-addicted street children.

### IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation and Accomplishments.** The principal U.S. counternarcotics objective in Kenya is to interdict the flow of narcotics to the United States. The USG seeks to accomplish this objective through law enforcement cooperation, the encouragement of a strong Kenyan government commitment to narcotics interdiction and efforts to strengthen Kenyan counternarcotics capabilities.

There was a modest expansion of U.S. bilateral cooperation with Kenya and surrounding countries on counternarcotics matters in 2001. The U.S. provided the ANU with four motorcycles and will be providing computers and related equipment to this unit in the coming year. The United States also took over local chairmanship of the Mini-Dublin Group, which has responsibility for coordinating counternarcotics assistance to Kenya from several Western donors.

The United States is in the process of seeking an amendment to the MOU it signed with the Government of Kenya in 2000 to provide increased assistance to the ANU. Once signed, this amendment will allow the U.S. to assist the ANU to improve its airport interdiction efforts and to combat corruption.

**The Road Ahead.** The USG will continue to take advantage of its good relations with Kenyan law enforcement authorities to enhance professionalism, operational capacity, and information sharing. Nairobi is also an ideal venue for conducting regional training and launching other regional initiatives. The USG will actively seek ways to maximize counternarcotics efforts both in Kenya and throughout East Africa. Perhaps most significantly, the USG will work with local, regional, and international partners to better understand and combat the flow of international narcotics, particularly heroin, through Kenya to the United States.

# Lebanon

## I. Summary

Lebanon is not a major illicit drug producing or drug-transit country, although it remains a country of concern to the U.S. During 2001 there was a significant increase in hashish cultivation. Although the Government of Lebanon (GOL), in cooperation with Syrian authorities, was successful in suppressing the cultivation of illicit opium and cannabis crops in the Biqā' Valley from 1992-2000, the resumption of cannabis cultivation during 2001 is likely attributable the lack of suitable alternative crops to sustain the livelihoods of local farmers at a time of growing economic uncertainty. There was minimal poppy cultivation in 2001. There is practically no illicit drug refining in Lebanon. Drug trafficking across the Lebanese-Syrian border has diminished substantially as a result of Lebanese and Syrian efforts to deter smuggling activity. Lebanon is a party to the 1988 UN Drug Convention.

## II. Status of Country

The deteriorating economic situation in Lebanon—especially in the agricultural sector—led to a resurgence of hashish cultivation by farmers in the Biqā' Valley in 2001. There were also minor instances of poppy cultivation. Neither the GOL nor the Syrian authorities in the area made any efforts to deter cultivation in the spring of 2001 or to eradicate the resulting crop before the summer harvest. However, in November, the government launched an counternarcotics campaign to discourage new planting. Occasionally producers of illicit crops have shot at strangers who were perceived to be threatening their fields; in June, shots were fired at a CNN team attempting to film cannabis crops.

Approximately 4,010 hectares of land were used for hashish production. In 2000, the Judiciary Police—the law enforcement agency tasked with counternarcotics responsibilities—destroyed opium poppy crops in several areas of the Biqā' Valley. They performed no eradication in 2001, but illicit cultivation remained very limited.

Five types of drugs are available in Lebanon: hashish, heroin, cocaine, methamphetamine, and other synthetics, such as MDMA (ecstasy). Although hashish and heroin are no longer widely available in large quantities, small quantities continue to be available for local consumption.

Lebanon is not a major transit country for illicit drug traffickers, and most trafficking is done by “amateurs,” rather than major drug networks. Marijuana and opium derivatives are trafficked to a modest extent in the region, but there is no evidence that the illicit narcotics that transit Lebanon reach the U.S. in sufficient amounts to have a significant effect on the U.S. South American cocaine is smuggled into Lebanon primarily via air and sea routes from Europe, Jordan, and Syria. Lebanese nationals living in South America in concert with resident Lebanese traffickers often finance these operations. Synthetics are smuggled into Lebanon primarily for sale to high-income recreational users.

There is no significant illicit drug refining in Lebanon; such activity has practically disappeared due to vigilance of the Syrian and Lebanese governments. Small amounts of precursor chemicals, however, shipped from Lebanon to Turkey via Syria, are diverted for illicit use. Legislation passed in 1998 authorized seizure of assets if a drug trafficking nexus is established in court proceedings.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Neither the Lebanese government nor the Syrian government (which maintains security control over the Biqā' Valley) took any actions to prevent illicit cannabis cultivation in 2001. Although Lebanese Interior Minister Elias Murr sent a circular in May to local government officials advising them that failure to report illicit cannabis and opium cultivation in their areas could subject them

to prosecution, there was no follow up, and there have been no prosecutions. However, in November, prior to the poppy-sowing season, the government launched a coordinated campaign to discourage farmers from cultivating illicit crops, and began planning for their eradication. Interior Minister Murr announced a zero-tolerance policy for poppy cultivation and opium/heroin production. The government has continued to support counternarcotics initiatives in coordination with international organizations and other countries through training and program participation.

**Accomplishments.** The government launched a public awareness advertising campaign in 2001 to discourage drug use and introduced a recently approved civics textbook for use in all public schools, which contains a chapter on narcotics. In December, the Ministry of Health established a system for ensuring that precursor chemicals imported into Lebanon for licit purposes would not be diverted to illicit uses.

In addition to its unilateral efforts, from 1994-2001 the GOL worked with the United Nations Drug Control Program (UNDCP), the UN Development Program (UNDP), and the FAO on a crop substitution and rural development program in the Baalbek-Hermel area. Over the period of the program, UNDP provided about one-third of the funds (an estimated \$4.7 million) used in Lebanon's Integrated Rural Development Program for Baalbek and Hermel. The UNDP operated six healthcare centers and provided loans and vocational training for farmers, but funding for the program ran out in October 2001. Farmers in the Biqa' Valley reportedly had been dissatisfied with the crop substitution program. During the year, local political figures exerted political pressure on the government to ignore the resurgence of narcotics cultivation. Given the continuing agricultural crisis in the country, and considering that development funds remain limited, impoverished farmers will likely continue to cultivate illicit cannabis, and there is a danger of a return to illicit opium cultivation, unless serious deterrence measures and/or meaningful development alternatives are made available.

**Law Enforcement and Transit Cooperation.** Lebanese security services coordinate with their international counterparts. The Judiciary Police report that close governmental cooperation exists with the major transit countries, particularly those in Europe. The Lebanese military also closely coordinates its activities against drug traffickers with its Syrian counterpart.

**Domestic Programs (Demand Reduction).** There is a growing recognition among Lebanese leaders of the need to address the problem of illicit drug use. During the year, the government launched a widespread public awareness campaign to discourage drug use. Textbooks approved for use in all public schools contain a chapter on narcotics to increase public awareness. There are several detoxification programs but the only entity in Lebanon that offers a comprehensive drug rehabilitation program is Oum al-Nour (ON), a Beirut-based NGO. The Government provides 40 to 50 percent of ON's yearly budget, which is projected at \$947,000 for 2002. In addition, the organization receives support from Lebanon's Ministry of Social Affairs and Ministry of Public Health. ON estimates that the age of Lebanon's drug addicts has steadily decreased since the end of the country's civil war in 1990, with pre-college and college-age youth now being the most vulnerable. ON statistics cite that the most commonly abused illicit substance is heroin, but use of "designer" drugs such as methamphetamine and ecstasy is present and possibly rising.

ON operates three drug treatment centers in Lebanon, two for men and one for women. The centers, which have a total capacity of 40 patients, offer a year-long residential program; they are currently operating above capacity. While the treatment facilities for hard-core addicts are adequate, the organization lacks out-patient care for individuals whose addictions do not necessarily warrant hospitalization.

ON also engages in drug prevention activities such as distributing counternarcotics paraphernalia on college campuses and promoting drug awareness among the population through advertisements and education programs.



**Law Enforcement Efforts.** During 2001 the GOL seized 307.82 kilograms of hashish, 7.28 kilograms of opium, 13.2 kilograms of heroin, 7.68 kilograms of cocaine, and 39 grams of cocaine base. In 2001, 1,182 persons were arrested on charges related to narcotics cultivation, production, transportation, or distribution. In 2001, Lebanese, British, and Egyptian law enforcement authorities cooperated in counternarcotics law enforcement operations.

**Corruption.** Corruption remains endemic in Lebanon up to the senior level of government. While low-level corruption in the counternarcotics forces is possible, there is no evidence of wide scale corruption within the Judiciary Police or the Internal Security Force, which appear to be genuinely dedicated to combating the war on drugs.

**Agreements and Treaties.** Lebanon and the United States have no formal bilateral agreements addressing the issues of narcotics trafficking or extradition. Lebanon is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention.

**Cultivation and Production.** According to a reliable local expert, approximately 4,010 hectares of land are used for hashish production; minimal land was dedicated to poppy production. There was no eradication of illicit crops during 2001. According to the same local expert, an estimated 238,900 metric tons of hashish was produced in 2001.

**Drug Flow/Transit.** Illicit drug trafficking via traditional smuggling routes has been curtailed by joint Syrian-Lebanese operations, but nonetheless continues. Drug trafficking along the Israel-Lebanon border has been negligible since the Israeli withdrawal from Lebanon in May 2000 and the subsequent near-sealing of the border. Despite the government's efforts, however, the flow of illicit narcotics into and out of Lebanon continues—much of it through Syria. The primary route for smuggling hashish from Lebanon during 2001 was overland through Syria and Jordan to Egypt and other destinations in Europe and the Middle East. It is unlikely that any significant quantities are being smuggled into the United States. The GOL has conceded in the past that small quantities of morphine and heroin are smuggled overland from Turkey for local use.

#### IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** In meetings with Lebanese officials, U.S. officials continue to stress the need for diligence in preventing the production and transportation of narcotics, and the need for a comprehensive development program for the Bika' Valley that would provide the impoverished residents with alternate sources of income. The USG also stresses the importance of anticorruption efforts. USAID, in close cooperation with the U.S. Embassy in Beirut, continues its four-component program to aid and empower key Lebanese stakeholders, local government, media, and civil society in their efforts to fight corruption. On the supply side, USAID assists U.S. and local NGOs to work with villages to promote the substitution of illicit crops with legitimate, economically viable ones.

**Bilateral Cooperation.** Lebanon and the United States cooperate in counternarcotics law enforcement efforts and the USG assists the GOL by providing drug-related intelligence, when available and appropriate.

**The Road Ahead.** Given the level of Syrian involvement in Lebanese domestic affairs, success in combating narcotics cultivation and trafficking depends on the will of both the Syrian and Lebanese governments. Although Syria from 1992 until 2000 demonstrated a commitment to counternarcotics actions in Lebanon, in 2001 it made no efforts to deter cultivation or to eradicate illicit cultivation. Nonetheless, the Governments of Lebanon and Syria appear determined to eradicate any illicit cultivation during 2002. The GOL, however, has not successfully developed a socio-economic strategy to tackle the problem of crop substitution. The USG will continue to press the GOL to maintain its commitment to combating drug production and transit and implementing its anticorruption policies.

# Lesotho

## I. Summary

Lesotho is not a major producer of narcotics or precursor chemicals, nor does it have drug processing laboratories. High quality marijuana is cultivated in the country's mountainous, rural areas and is smuggled to major cities in South Africa, but is not smuggled outside the region, with the possible exception of some shipments to Europe. Lesotho suffers from the impact of South Africa-based organized crime, mainly in the areas of livestock and motor vehicle theft and armed robbery, against which most of the country's scarce police resources are deployed. Domestic narcotics abuse is not a serious social problem.

## II. Status of Country

**Treaties and Agreements.** Lesotho is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. It has also approved the Southern African Development Community (SADC) Counternarcotics Protocol. The 1931 U.S.-U.K. extradition treaty remains in force between the United States and Lesotho. In December 2000, Lesotho signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

## III. Country Actions Against Drugs in 2001

Lesotho is concerned about the possible impact of organized crime, but its highest priorities in that regard are livestock and motor vehicle theft, both of which were the subject of new laws enacted by Parliament during 2000. Another high profile problem was dealt with by the passage of the Prevention of Corruption and Economic Offenses Act in August 1999. A clear law prohibiting corruption is just the first step. Lesotho strives to enforce all its law, but resources—both human and material—are frequently unavailable. The USG is not aware of any involvement of senior officials in drug-related corruption. Payments to facilitate passage of contraband goods to lower officials at border crossing points might occur, and could facilitate drug trafficking. The GOL would no doubt prosecute any case that would come to the attention of authorities under the Prevention of Corruption and Economic Offenses Act. The Government of Lesotho has continued to try to staff the investigating body provided for by that legislation and to study further and adopt the best practices of SADC partners against public corruption, although resources for these activities are limited. Lesotho's scarce law enforcement resources have been stretched to the limit dealing with Livestock and motor vehicle theft, and the country has thus far been unable to develop a master plan consistent with the terms of the 1988 UN Drug Convention. A task force working in the Attorney General's Office is evaluating additional laws based on models prepared by the UNDCP for implementing the 1988 UN Drug Convention.

## IV. U.S. Policy Initiatives and Programs

**Bilateral Cooperation.** Lesotho sent three participants to the U.S.-sponsored Regional Key Leaders Forum that was held in Gaborone April 24-25. The Government of Lesotho wants to augment its institutional capacity to better fight crime, and has designated four candidates to participate in the International Law Enforcement Academy's (ILEA) Executive Development Program, to be held in Gaborone from January 28 to March 8, 2002.

**The Road Ahead.** Lesotho and other Southern African countries should continue to benefit from the presence of the ILEA in Gaborone.

# Madagascar

## I. Summary

Madagascar is a producer of cannabis. Several provinces produce for local use but there are growing reports of illicit export to neighboring islands of the southwestern area of the Indian Ocean, including Comoros, Reunion, Mauritius, and Seychelles. There is no production or abuse of any synthetic drugs. The Government of Madagascar (GOM) has been involved in regional and international counternarcotics efforts for at least two decades. The GOM has drafted a bill to fight drug abuse and transshipments. Madagascar is a party to the 1988 UN Drug Convention.

## II. Status of Country

Cannabis is the chief object of both illicit drug abuse and trafficking. However, a recent GOM report indicated that no study has ever been done to determine the extent of drug abuse in Madagascar. Cannabis is cultivated clandestinely, sometimes over very large expanses, particularly in the northwest and far south of the country. Police reports to the media regularly highlight seizures of cannabis (up to hundreds of tons at a time) and arrests of producers and middlemen. Antananarivo, the capital city, with its 1.5 million inhabitants, a large proportion aged under 25, is the most fertile area for drug abuse. Poor communication, the extensive size of the country, lack of law enforcement resources, and probably corruption are the main obstacles to applying the existing laws.

## III. Country Actions Against Drugs in 2001

Madagascar is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotics, and the 1972 Protocol amending the 1961 UN Single Convention. Authorities try to fulfill Madagascar's obligations under these conventions. Madagascar has signed the United Nations Convention against Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, the Protocol against the Smuggling of Migrants, and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms. In 1998, the GOM created a Joint Ministerial Commission headed by the Prime Minister to draft a National Master Plan against Drugs. It comprises short-term, medium-term, and long-term actions. The draft has been finalized, but the GOM has not yet passed the bill that would implement the Master Plan. The same commission deplored that despite the increase in drug traffic, previous bills have not been enacted.

Cultivation and production are localized. Most shipments that are seized are smuggled in other goods along surface routes. Small quantities of cannabis have been seized in airports. Despite reports of offshore shipments using traditional canoes or small motorboats, very few seizures have been made at sea.

Madagascar has good working relationships with Comoros Island, other neighboring islands, and some multilateral organizations (e.g., the International Police Technical Cooperation Service). Madagascar also takes part in the network of Eastern and Southern African police agencies combating drug abuse and trafficking.

In a report issued in July 2001, the Joint Ministry Commission reported that close to 180 tons of cannabis were seized in 2000. In addition, 789,642 plants of cannabis were destroyed. Some 657 people were arrested for involvement with planting, selling, and consuming cannabis. Provisional figures for 2001 are up significantly; seizures by the Gendarmerie through November total 993 tons.

**Corruption.** In 1999, Madagascar passed a law against corruption (bribery) but the authorities do not actively enforce it. Furthermore, the law does not apply to senior government officials. Thus, it would seem to be a non-factor in the effort against narcotics-related corruption.

Madagascar does not encourage illicit production of narcotic or psychotropic drugs. It does not encourage the laundering or proceeds from illegal drug transactions. To the USG's knowledge, senior officials do not encourage the illicit production and distribution of such drugs, nor do they encourage the laundering of proceeds from illegal drug transactions.

**Drug Transit.** Because of the vulnerability of the control along the 5,000 kilometers of coastline, Madagascar risks becoming a drug transit country, not only for cannabis, but also for psychotropic drugs. Malagasy authorities say they cannot rule out the possibility that heroin and cocaine transit Madagascar, but they have no specific information (even anecdotal).

**Domestic Programs.** Collaboration with the United Nations resulted in the launching in 2000 of a "Sports Against Drugs" project in the capital city. This project continued for 2001 and will be expanded to other regions in the coming years.

# Malawi

## I. Summary

Drug trafficking and abuse are on the rise in Malawi. Though limited primarily to marijuana, Malawi appears to play a role in the illegal drug trade of southern Africa. As a result, the GOM is taking steps to halt the illegal activity before it increases further.

## II. Status of Country

Drug trafficking in Malawi is limited primarily to locally grown marijuana. The Dangerous Drug Unit (DDU) of the Malawi Police Service reports 819 seizures (nearly 60,000 kilograms) of the illegal substance from January to October 2001. Investigations surrounding the seizures resulted in 835 arrests. There was one seizure of cocaine weighing 250 grams; no arrests were made. These statistics indicate an increase in trafficking activity in comparison to the same period last year. Most of the marijuana cultivated in Malawi is destined for countries in the Southern African Development Community (SADC).

Concern over the abuse of marijuana in Malawi is growing. Though most of the crop is cultivated for regional shipment, sufficient amounts enter the local markets to get the attention of the GOM. The National Drug Control Commission met twice in 2001 to assess the effects of abuse in Malawi. Their report indicated a rise in violence, crime, and health-related problems as a result of marijuana abuse.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** The GOM, with UNDCP and SADC assistance, is currently working on a National Drug Master Plan (NDMP), to include updating legislation pertaining to illegal drug activity. The NDMP is scheduled for completion in December 2001, with hopes the GOM will approve the plan in February 2002.

**Agreements and Treaties.** Malawi is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. Although limited by a lack of resources, the GOM is striving to meet the goals of the 1988 UN Drug Convention wherever possible. This can most readily be seen in the efforts of the DDU, work on the NDMP, and regional cooperation with SADC. Malawi has signed but not ratified the UN Convention against Transnational Organized Crime. The 1931 U.S.-U.K. Extradition Treaty remains in force between the United States and Malawi through a 1966-1967 exchange of notes.

## **Mauritius**

Mauritius is not a major producer, exporter, or consumer of illicit drugs. Although drug production on the island is confined to cannabis, the number of plants seized has increased steadily over the last several years. The year 2001 also saw a dramatic increase in the amount of heroin seized, thanks largely to the record-breaking seizure of over 15 kilograms of heroin in November 2001. The Dangerous Drug Act was approved on December 5, 2001. The Act gives the Anti-Drug and Smuggling Unit (ADSU), the primary Mauritian drug interdiction force, considerably more legal tools with which to pursue drug smugglers.

Mauritius is a party to the 1988 UN Drug Convention, which it ratified on March 6, 2001. Mauritius is also a party to the 1961 Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention on Narcotic Drugs, and the 1971 UN Convention on Psychotropic Substances. In December 2000, Mauritius signed the UN Convention against Transnational Organized Crime.

The 250-person ADSU within the National Police Force is primarily responsible for investigations and enforcement relating to narcotics laws, although a 37-member "Flying Squad" also carries out enforcement activities. The ADSU has implemented a cooperation agreement with its counterpart in India, and continues to develop cooperative arrangements with its Southern African Development Community (SADC) partners pursuant to the SADC Protocol on Illicit Drug Trafficking. Relations with the U.S. DEA are good. Destruction of cannabis plants has risen steadily over the last several years. More disturbing, however, has been the dramatic spike in heroin seizures, a trend that strongly suggests Mauritius is increasingly being used as a drug transshipment point.

Through the end of November 2001, over 24 kilograms of heroin had been seized, a substantial jump in activity from the 5.9 kilograms seized in 2000. In the first six months of 2001, over 56 kilograms of cannabis were seized, an obvious jump from the 21.9 kilogram figure from 2000. Seizures of hashish also rose, with 15.2 grams having been seized through the first six months of 2001, compared to 6.7 grams in 2000.

The government provides drug education and demand reduction programs and supports similar projects undertaken by NGOs. ADSU has discontinued its preparation of a counternarcotics master plan, based on the argument that narcotics abuse is not a major issue for Mauritius. Corruption is moderate by regional standards, and does not appear to affect counternarcotics efforts. The United States periodically provides training for Mauritian law enforcement authorities, and two ADSU officers attended a regional training course in 2001.

## **Seychelles**

Seychelles is a very small narcotics player. Drug use is believed to be limited primarily to cannabis; other drugs are generally uncommon. Seychelles is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention on Narcotic Drugs, and the 1971 UN Convention on Psychotropic Substances. In December 2000, Seychelles signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

## **Comoros**

Comoros is believed to have very limited narcotics activity. The penalties for drug possession and distribution are extremely severe and domestic production is starkly limited. The fragile nature of the government and recent political instability, however, make it difficult to assess accurately narcotics activity in Comoros.

# Morocco

## I. Summary

Despite the Government of Morocco's (GOM) law enforcement efforts, Morocco remains a major producer and exporter of cannabis. There continues to be no evidence Moroccan cannabis reaches the United States in significant amounts. An estimated 2,000 tons of hashish is produced each year, and 1,500 tons is believed to reach Europe annually, although estimates of the extent of cannabis cultivation in Morocco vary. The GOM's Royal Center for Remote Sensing estimates that Morocco's cannabis growing area covers a total of 15,000-20,000 hectares. These numbers are lower than those of the EU which estimates the area of cannabis cultivation to be 75,000-85,000 hectares. Morocco's estimates of production seem to be increasingly questionable in light of the GOM's acknowledgement that its cultivation estimates are surely low. The GOM's resource constraints continue to undermine its law enforcement efforts to counter drug trafficking. Morocco is a party to the 1988 UN Drug Convention and in 1992 Morocco passed legislation designed to implement the Convention.

## II. Status of Country

Morocco consistently ranks among the world's largest producers and exporters of cannabis, and its cultivation and sale provide the economic base for much of northern Morocco. Only very small amounts of narcotics produced in or transiting through Morocco reach the United States. According to an EU-funded report, earnings from the illicit trade in hashish are approximately U.S. \$3 billion a year, and the hashish trade remains Morocco's primary source of hard currency. 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, precursor chemicals are virtually nonexistent 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 state there is a connection between local drug traffickers and international cartels such as Latin American cocaine rings. However, these allegations have never been clearly substantiated, although the fact that six tons of cocaine washed up unexpectedly on the Moroccan coast several years ago gives them added credibility. Morocco is a party to the 1988 UN Drug Convention.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In response to recommendations made by the United Nations, the Moroccan Ministry of Health in the 1990s began to assess the drug situation in Morocco. Citing Morocco's obligations under the 1988 UN Drug Convention, the Ministry encouraged the creation of the Agency for the Promotion of Economic and Social Development in the Northern Provinces. In 1996, the GOM established a coordination unit for the fight against narcotics, Unite De Coordination De Lutte Anti-Drogue (UCLAD), in an effort to improve coordination between the various law enforcement services involved in the counternarcotics effort. UCLAD is subordinate to the Ministry of Interior. UCLAD officials report they have been instrumental in reworking legislation to increase the maximum allowable prison sentence for drug offenses to 30 years as well as increase fines for narcotics violations to a range of U.S. \$20,000-\$80,000. Ten years imprisonment remains the typical sentence for major drug traffickers arrested in Morocco.

Coordination efforts among law enforcement agencies remain weak, and UCLAD has not yet been able to establish centralized control over all drug-related matters. European diplomats believe this is partly the result of the lack of resources to fulfill the UCLAD mandate.

**Accomplishments.** In March 2001, the GOM stated that the area used for cannabis cultivation had stabilized at about 65,000 hectares since 1994. This figure is substantially larger than the previous estimates by the GOM, which stated that the hectares devoted to cannabis hovered around 20,000 over the past years. Nevertheless, in March 2001, the GOM predicted to the UNDCP that hashish production in Morocco would be eliminated within seven years.

**Law Enforcement Efforts.** As part of a 1992 counternarcotics initiative launched by the late King Hassan, an estimated 10,000 police were detailed to drug interdiction efforts in the north and Rif mountains in 1995. Since then, approximately every six months, the GOM has rotated personnel into this region and continued to maintain the same numbers of checkpoints. Moroccan forces also staff 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 in the past it has disputed allegations that government officials in the northern territories are involved in the drug trade. However, in 1999 and 2000, there were several highly publicized arrests involving drug trafficking by Moroccan officials in the northern region. These efforts may be an indication the GOM is beginning to take a stronger stance against drug-related corruption. However, while a number of large drug-related arrests have been publicized, they appear to primarily involve foreigners. The media has not provided comparable publicity to Moroccan drug barons, who have a great deal of influence and power in the northern region.

**Agreements and Treaties.** Since 1993, a bilateral mutual legal assistance treaty has been in force between Morocco and the United States. In 1989, Morocco and the U.S. signed a bilateral narcotics cooperation agreement which calls for cooperation in the fight against illicit production, trafficking, and abuse of narcotics. Morocco also has counternarcotics and/or mutual legal assistance treaties with the EU, France, Spain, Germany, Italy, Portugal, and the UK. Morocco is a party to the 1988 UN Drug Convention, and in 1992, the GOM passed legislation designed to implement the 1988 UN Drug Convention. The GOM's announced programs would, if fully implemented, bring it substantially into compliance with the goals and objectives of the 1988 UN Drug Convention. UCLAD continues to oversee cooperation between law enforcement services which have not traditionally been receptive to the exchange of information. However, UCLAD's centralized control of all drug-related matters is not yet completely realized. European diplomats believe this is partly the result of the lack of resources to fulfill the UCLAD mandate, and note that without increased funding, the aims of the 1988 UN Drug Convention will remain unattainable in Morocco. Morocco is a party to the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention on Narcotic Drugs. Morocco has signed but not ratified the 1972 Protocol amending the Single Convention.

**Cultivation/Production.** Small farmers cultivate most Moroccan cannabis in the northern or Rif region, although some is also grown in the Souss valley of the south. Those who cultivate cannabis have not been hurt by Morocco's two years of drought as it is a highly resistant crop. The average hectare of cannabis produces two to eight metric tons of raw plant. This implies that Morocco might produce in the range of 325,000 metric tons of raw cannabis (65,000 hectares x approximately .5 metric tons/hectare). The GOM has stated it is committed to the total eradication of cannabis production, but given the economic dependence on cannabis in Morocco's northern region, 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 from Latin America 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. It has established a program to train the staffs of psychiatric hospitals in the treatment of drug addiction.



### IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** U.S. policy goals in Morocco are designed to encourage GOM counternarcotics efforts; to cooperate with Moroccan law enforcement officials in curtailing production and transshipment of drugs; to provide training in law enforcement techniques; to promote the GOM's adherence to its obligations under relevant bilateral and international agreements; to provide support for existing Moroccan-European cooperation in this area; and to encourage greater international cooperation to control Moroccan production and export of drugs.

**Bilateral Cooperation.** Pursuant to the 1989 narcotics cooperation agreement, the United States and Morocco maintain occasional contact on counternarcotics issues. The United States has provided training and counternarcotics intelligence where applicable, and most recently conducted regional drug interdiction training in Morocco in December 1997.

**The Road Ahead.** The United States will continue to monitor the narcotics situation in Morocco, cooperate with the GOM in its counternarcotics efforts, and, together with the EU, provide law enforcement training, intelligence, and other support where possible.

# Mozambique

## I. Summary

Mozambique is increasingly a transit country for illegal drugs (hashish, herbal cannabis, cocaine, Mandrax (methaqualone), and heroin) consumed in Europe and South Africa. There are allegations that limited hashish shipments pass through Mozambique on their way to the United States and Canada. The country's porous borders, poorly policed seacoast, and inadequately trained and equipped law enforcement agencies make it susceptible to such transshipment. Production is largely limited to herbal cannabis. In 1995 and 2000 Mozambican and South African authorities jointly closed factories near Maputo producing Mandrax for export to South Africa. Information on drug use in Mozambique is limited. Available evidence suggests significant use of herbal cannabis and a rise in the consumption of "club drugs" (MDMA, ecstasy, etc.), stolen prescription medicines (methadone, rohypnol, diazepam, morphine), and heroin among urban elite.

While the Mozambican government recognizes increasing drug use and drug trafficking as a problem, competing demands for scarce funds prevent it from devoting significant resources to the issue. The government has not made these areas priorities for seeking donor funding. Ongoing cooperation programs with the UNDCP and bilateral donors are attempting to improve training of drug control officials and provide better interdiction and laboratory equipment. Corruption in the police and judiciary hampers counternarcotics efforts. Mozambique is a party to the 1998 UN Drug Convention.

## II. Status of Country

Mozambique is not a significant producer of illegal drugs. Herbal cannabis is produced throughout the country for local consumption and limited export to neighbors. Factories producing Mandrax for the South African market were raided and closed down in 1995 and 2000. There is growing concern about Mozambique's role as a drug-transit country. Experts agree that Southwest Asian producers ship hashish and cannabis resin through Mozambique to Europe and South Africa. Limited evidence suggests some of these shipments may also reach the United States and Canada, but not in quantities large enough to have a significant impact. The same producers use Mozambique to ship limited quantities of heroin to Europe and South Africa and Mandrax to South Africa. Reports from the Mozambican Office for the Prevention and Fight Against Drugs (GCPCD) indicated that heroin and other opiate derivatives shipped through Mozambique also originate in the "Golden Triangle" of Southeast Asia. A small Lusophone cocaine trafficking connection exists, in which limited amounts of cocaine from Colombia and Brazil transit Portugal and Angola or Mozambique on their way to South Africa. Mozambique is not a producer of precursor chemicals.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Mozambique's National Assembly passed counternarcotics legislation in March 1997 covering trafficking and consumption of narcotic drugs, psychotropic substances, precursors, and substances of similar effect. The 1997 legislation created the GPCD, the chief government planning and coordination body on drug control. Mozambique has no national program for the progressive elimination of its cannabis crop.

**Accomplishments.** Mozambique's accomplishments in meeting its goals under the 1988 UN Drug Convention remain somewhat limited. Government resources devoted to the counternarcotics effort are meager. Available donor funds are limited. Mozambique is cooperating with the UNDCP through two activities designed to increase law enforcement capacity and border control. Studies on drug trafficking, production, and use are insufficient to serve as the basis for developing a master plan.

Local law enforcement agents in some provinces have attempted to destroy cannabis crops. In 1995 and 2000, Mozambique cooperated with South Africa in raiding Mandrax factories near Maputo. Distribution of drugs in Mozambique is limited. Local rings distributing heroin and cocaine in Beira and Nampula have been targeted by police. Ring members have been arrested and drugs confiscated, but the organizations' operations are still believed to continue. In a March 2001 action, police in Maputo targeted hashish, heroin, and cocaine distribution networks, arresting 168 individuals and confiscating drugs. Provincial authorities in Cabo Delgado province launched a joint Ministry of Health/police operation in November 2001 to disrupt networks selling stolen/illegally imported prescription medicine. Police have also targeted a Mandrax distribution ring in the provincial capital of Xai Xai, arresting seven of 15 suspected members.

Mozambican officials seized assets connected with the production of Mandrax. Asset seizures related to profits derived from drug sales have not yet been made. Mozambique has not received requests for the extradition of drug-related suspects. Mozambique is a signatory to the 1997 Mutual Accord of Multilateral Assistance Regarding the Fight Against Crime in Southern Africa and has ratified the Southern African Development Community Protocol on the Combat of Illicit Drug Trafficking in Southern Africa. The Mozambican government has undertaken drug education programs in local schools in cooperation with bilateral and multilateral donors as part of its demand reduction efforts. The efficacy of the programs has not yet been determined.

**Law Enforcement Efforts.** Founded in 1997, Mozambique's dedicated drug unit, which operates in Maputo and answers to the Chief of the Criminal Investigation Police, received refresher training in drug interdiction techniques as part of a UNDCP program in March 2001. Under the same program, 20 additional officers were hired and trained to staff dedicated drug units nationwide. An additional 50 staff are to be trained under the program. In addition, new drug detection equipment was installed at border posts, ports, and airports for these teams to use.

Mozambique's immigration service, a police unit within the Ministry of the Interior, is the lead agency at all ports of entry, but its role in narcotics enforcement is limited to passing its suspicions to police or customs officials. A UNDCP consultant report from August 2000 views immigration's role as "not crucial to the drugs law enforcement effort." No additional training has been provided.

Customs officers at Maputo's airport and seaport have received drug interdiction training under a UNDCP program. With support from an outside contractor, Maputo-based customs agents continue to develop an embryonic intelligence system that includes drug control information. The entire national customs service is currently being modernized under contract with the British firm Crown Agents, which has introduced drug interdiction methods. The UNDCP is working with customs agents at land borders as part of a tri-state program with Mozambique, South Africa, and Swaziland.

The largest seizure in 2000 occurred in August when a ship ran aground near Inhambane with cargo that included 15,000 kilograms of hashish in 1- and 2-kilogram blocks. In the most effective drug control operation of that year, Mozambican customs and police officials and their South African counterparts raided a Mandrax factory near Maputo.

Well publicized seizures in 2001 include:

- February raids of Maputo drug rings that yielded 99 packets of hashish, 320 grams of cocaine, and 30 pieces of heroin.
- February customs seizure at Maputo airport of seven boxes of 168 tablets each and nine boxes of 80 tablets each of ecstasy.
- March seizure of 45 kilograms of herbal cannabis in Quissico, Inhambane province.
- April raids of Maputo drug markets that yielded 200 grams of cocaine, 13 pieces of hashish, and 20 packets of heroin.
- April seizure of 35 packets of hashish in Maputo.

- May seizure of six tons of hashish in Inhambane.
- June seizure of 1.015 kilograms of cocaine, 8 kilograms of hashish, 44 bags of heroin, and 31 diazepam tablets in Beira.
- July seizure of 30 balls of hashish, 7 bundles of cannabis, 9 small doses of cocaine, and 2 doses of heroin (NB: Weights not available) in Maputo raids.
- July seizure of 600 kilograms of marijuana in the port of Nacala.

In addition, a joint Mozambican/South African police operation resulted in the April arrest of the owner of a Mandrax factory that authorities seized in 2000. Two others involved in the factory were sentenced in April to 20 years imprisonment. In November, nine Pakistanis were sentenced to 18 years in jail for trafficking in the 2000 Inhambane hashish case. Police in several provinces destroyed herbal cannabis crops in 2001.

According to a Council of Ministers' report to the National Assembly, 745 drug trafficking cases were opened in 2000, resulting in 256 individual convictions. Statistics for 2001 are unavailable.

**Corruption.** Corruption in all areas is pervasive in Mozambique. Legislation prohibits official corruption, including narcotics-related corruption, but it is not rigorously enforced. Mozambique has not prosecuted government officials for corruption relating to the production, processing, or shipment of narcotic and psychotropic drugs or controlled substances. Nor has it prosecuted any individual for discouraging the investigation or prosecution of such acts. The former director of the Department of Investigative Operations of the Criminal Investigation Police, Paulo Wane, was detained in Maputo for alleged involvement in distributing hashish and heroin. No charges were filed, and he was released. The independent press and the Network of Mozambican NGOs Fighting Drugs (RNOMCD) have alleged that senior government and FRELIMO party officials are involved in drug trafficking or in covering up drug trafficking, but no hard evidence has yet emerged to support these accusations.

**Agreements and Treaties.** Mozambique is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Mozambique has ratified the Southern African Development Community Protocol on the Combat of Illicit Drug Trafficking in Southern Africa, and is a member of the 1997 Mutual Accord of Multilateral Assistance Regarding the Fight Against Crime in Southern Africa. Mozambique has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Cultivation/Production.** Herbal cannabis is cultivated in Nampula, Zambezia, Niassa, Cabo Delgado, Tete, Manica, and Sofala provinces. There are indications of new cultivation in other provinces outside Maputo. The Mozambican government has no estimates on crop size. Intercropping is reportedly common.

**Drug Flow/Transit.** The picture of drugs transiting Mozambique is based upon limited seizure data and the opinions of local and UNDCP officials. Mozambique is not a primary transit country for drugs destined to the United States. Mozambique serves as a transit country for hashish, cannabis resin, heroin, and Mandrax originating in Southwest Asia. These drugs arrive in Mozambique by small ship via Dubai and are primarily destined for the South African market. Hashish and heroin are also shipped on to Europe, and there is evidence that some hashish may reach Canada and the United States. Airport, ports, and land borders with Swaziland and South Africa serve as disembarkation points for such shipments. The almost uninhabited Caribas Islands located near Mocimboa da Praia in Cabo Delgado serve as a base for traffickers.

Arrests in Brazil and Mozambique suggest that cocaine is being shipped by drug couriers from Colombia and Brazil to Mozambique and Angola through Lisbon for onward shipment to South Africa and East

Asia. In addition, there is anecdotal evidence that Nigerian cocaine traffickers have targeted Mozambique as a gateway to the South African and European markets.

**Domestic Programs (Demand Reduction).** No comprehensive study of Mozambique's drug abuse problem has been conducted. The primary drugs of abuse are alcohol and herbal cannabis. Heroin, cocaine, and "club drug" usage and prescription drug abuse is also reported among Mozambique's urban elite. Experts differ regarding the prevalence of Mandrax and hashish use. The GCPCD has developed a drug education program for use in schools. It has provided the material to a number of local NGOs, including the Academic League for Community Development (LADC) and RNOMCD, for use in their drug education programs. The Maputo GCPCD office launched an education program aimed at youth in April 2001. The program will include plays and lectures in schools, churches, and other places where youth gather. The Sofala provincial GCPCD office has created teams of community volunteers to organize educational programs in Beira, Dondo, Nhamatande, and Gorongosa. The GCPCD is finalizing a nationwide prevention project for donor funding. Drug abuse and treatment options are scarce. The GCPCD is seeking donor assistance in creating three regional treatment centers in Maputo, Beira, and Nampula.

#### **IV. U.S. Policy Initiatives and Programs**

The USG has included and will continue to include Mozambican law enforcement officials in regional training programs through the International Law Enforcement Academy (ILEA) for Africa in Botswana. The USG has provided \$170,000 in support to the new Police Sciences Academy (ACIPOL) for curriculum development, and intends to provide a full-time advisor to help with the curriculum. The Department of Defense is providing training to the Mozambican navy to improve their coastal surveillance activities.

# Namibia

## I. Summary

Namibia is not a major drug producer or exporter; however, it continues to be used as a drug transit country. While the increase in drug seizures this past year may not be significant when compared to neighbors, the numbers reflect a noteworthy increase in the number of domestic arrests of users in a growing drug market. The most common illicit drugs are cannabis and methaqualone.

## II. Status of Country

Namibian police have not uncovered any laboratories producing narcotics in Namibia. They suspect that illicit drugs hidden in large trucks are smuggled into Namibia over land. While most of the narcotics are destined for the illicit South African market, more and more of the drugs are returning to or remaining in Namibia and feeding a growing domestic drug abuse problem. Police sources report significant increases in the use of cocaine, heroin, methaqualone, and LSD, and their first seizures of crack cocaine.

## III. Country Actions Against Drugs in 2001

**Law Enforcement Efforts.** Namibia's Drug Law Enforcement Unit (DLEU) made a number of major arrests this year, although they lack the manpower and resources to adequately cover all areas of concern.

**Corruption.** Corruption plays a role in facilitating the movement of narcotics, but by regional standards, corruption in Namibia is low, and the government seeks to discipline officials who have been proven to be corrupt.

**Agreements and Treaties.** Namibia is not a party to the 1988 UN Drug Convention, but it is a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Namibia has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

## IV. U.S. Policy Initiatives and Programs

The U.S. government has not provided any counternarcotics assistance programs to Namibia in the past except by providing training to Namibian law enforcement officials at the International Law Enforcement Academy, and by sending a very short-term Justice Department attorney to review municipal/community policing issues in the capital, Windhoek.

Namibian government officials have expressed interest in cooperating with international and U.S. law enforcement agencies. Namibia has been independent for only 11 years and needs training and resources to enhance its prosecution of international drug cases.

# Nigeria

## I. Summary

Nigeria remains a hub of narcotics trafficking and money laundering activity. Nigerian organized criminal groups dominate the African drug trade and transport narcotics to markets in the United States, Europe, Asia, and Africa. Some of these criminal organizations are engaged in advance-fee fraud, commonly referred to in Nigeria as “419 Fraud,” and other forms of defrauding U.S. citizens and businesses. Years of military rule and an associated economic decline contributed significantly to the expansion of drug trafficking and criminality in Nigeria. The resulting severe unemployment and widespread corruption provided both an incentive and a mechanism for Nigerian criminal groups to capitalize on Nigeria’s central location along the major drug routes and access to global narcotics markets. Southeast and Southwest Asian heroin smuggled via Nigeria accounts for a significant portion of the heroin imported into the United States. Nigerian criminal elements operating in South America transship cocaine through Nigeria on to Europe, Asia, and Africa. In Africa, Nigerian-trafficked cocaine is mainly bound for South Africa. Nigerian-grown marijuana is exported to neighboring West African countries and to Europe, but not in significant quantities to the United States. Aside from marijuana, Nigeria does not produce any of the drugs that its nationals traffic.

During 2001, President Obasanjo’s public denunciation of Nigerian criminal activity has been matched by a number of steps he has taken to tackle drug trafficking, money laundering, and other organized criminal activities. He is also seeking to improve the image of Nigeria abroad by more vigorous efforts against trafficking by Nigerian nationals. Funding of the National Drug Law Enforcement Agency (NDLEA)—Nigeria’s sole drug control agency—increased 200 percent, while the NDLEA’s dynamic leadership instituted a number of internal reforms that have improved the professionalism of the 3,500 men and women in the NDLEA.

Nigeria’s effort to strengthen its commitment to drug control and the fight against organized crime suffered a tragic setback when Chief Bola Ige, the Attorney General and Minister of Justice, was assassinated on December 23, 2001. Chief Ige, Nigeria’s top law enforcement official and the official responsible for the NDLEA’s operations, was the catalyst behind many of the new counternarcotics and anticrime initiatives in the past year. President Obasanjo has pledged to find and prosecute those behind the assassination and to sustain the reforms started by the late Attorney General. A suspect was in police custody in early January 2002.

Nigeria instituted a campaign to root out corruption that started shortly after President Obasanjo’s inauguration in May 1999, and was sustained and strengthened in 2001. In late 2001, the Anti-Corruption Commission hired 93 investigators, prosecutors, and administrators, its first contingent of personnel not detailed from other agencies. The Obasanjo administration supports the domestically controversial 1990 NDLEA Act Number 33. This law dictates that Nigerians convicted of drug offenses abroad will be arrested upon their deportation back to Nigeria, and, if convicted, will be liable for a minimum of five years additional imprisonment for harming the reputation of Nigeria. But corruption embedded over 16 years of continuous military rule continues to be a problem for the Obasanjo administration, with the administration itself having suffered from a number of corruption scandals.

Over the years, Nigerian law enforcement agencies have had some limited success in combating the various elements of the drug trade. Typically, street pushers and trafficker “mules” are apprehended; the effort against large-scale traffickers has been less effective. In 2001, however, the Obasanjo government took a number of steps to strengthen the capacity of its enforcement agencies to deal with organized crime. Legislation was introduced into the National Assembly to improve the existing 1995 Money Laundering Act that had previously only criminalized money laundering related to drug trafficking. Asset forfeiture has not been a successful deterrent against money laundering or drug trafficking activities. The

extent of corruption among enforcement officials and the judiciary raises serious questions about whether this particular sanction could be applied consistently enough to have a salutary effect, quite apart from the technical difficulty of putting together a particular case.

Interdiction and enforcement efforts are complicated by an absence of inter-agency cooperation and a serious lack of resources. Years of neglect by successive military regimes left the law enforcement community demoralized and ill-equipped to deal with sophisticated international criminal networks. This problem is compounded by pervasive corruption throughout all levels of government. There have been a few arrests of major traffickers; however, it can take years for a case to come to trial and no mechanism exists to track cases. Cases are often “systematically lost” within Nigeria’s judicial system.

## II. Status of Country

Nigeria produces no precursor chemicals or drugs that have a significant effect on the United States, but it remains a major drug-transit country. In addition, Nigerian criminal elements operate global trafficking/criminal networks.

The NDLEA is the law enforcement agency with sole responsibility for combating narcotics trafficking and drug abuse. It was established in 1989, and works alongside Nigerian Customs, the State Security Service, the National Agency for Food and Drug Administration and Control (NAFDAC), the National Police, and the Nigerian Immigration Service at the various ports of entry. The NDLEA’s most successful interdictions have taken place at Nigeria’s international airports. The agency has successfully apprehended individual drug couriers transiting these airports and some of the drug traffickers sponsoring these couriers. An improved interdiction effort at the Lagos international airport during 2001 has forced smugglers to change tactics and ship contraband via Nigeria’s five major seaports or across its porous land borders.

In late 2001, the NDLEA carried out an unprecedented seizure of 60 kilograms of cocaine at the Lagos seaport of Tin Can Island. Following this seizure, the President issued an executive decree granting the NDLEA full operational access to all of Nigeria’s international seaports. This move, long called for by the U.S. government, is expected to greatly boost the NDLEA’s interdiction success.

As specialists in moving narcotics and other contraband, Nigerian criminal organizations are heavily involved in corollary criminal activities such as document fabrication, illegal immigration, and financial fraud. Their ties to criminals in the United States, Europe, South America, Asia, and South Africa are well documented. Nigerian poly-crime organizations exact significant financial and societal costs, especially among West African nations with limited resources for countering these organizations.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In 2001, the democratically elected Obasanjo administration introduced a number of new legislative and executive initiatives to combat narcotics trafficking and organized crime. These initiatives included: the drafting of new money laundering legislation; drafting legislation to create an Anti-Terrorism, Economic and Financial Crimes Commission to coordinate government-wide efforts against money laundering and financial crimes; granting expanded authority to the NDLEA to operate in the five major international seaports of Nigeria; and forming an inter-agency anti-fraud committee to improve enforcement efforts against financial fraud. The draft bill to create an Anti-Terrorism, Economic and Financial Crimes Commission shows the government’s commitment to meeting its international obligations, particularly the criteria of the FATF. Nigeria’s counternarcotics policy is based on the National Drug Control Master Plan (NDCMP), which has been in place since 1998. This plan assigns responsibilities to various government ministries and agencies as well as NGOs and other interest groups. The master plan also outlines basic resource requirements and timeframes for the completion of objectives. Many of these goals have not yet been met.



Both chambers in the National Assembly have Narcotics Affairs Committees, which monitor the performance of the NDLEA and implementation of Nigeria's counternarcotics strategy. While frequent leadership changes at the NDLEA impaired the agency's interdiction activities in the past, the current NDLEA Chairman, Alhaji Bello Lafajji, who assumed office in October 2000, has given the agency new life and much greater direction. Chairman Lafajji has declared an all-out offensive against drug trafficking and has instituted a number of internal reforms to improve the professionalism of NDLEA staff, including the retiring of officials suspected of corruption and improving training and benefits for NDLEA personnel. Chairman Lafajji also has called for harmonization of Nigeria's narcotics legislation and has sought increased international assistance for his agency. The NDLEA has also embarked upon a publicity campaign to combat narcotics trafficking and drug abuse by staging various contraband destruction events around the country.

**Accomplishments.** Nigeria's drug enforcement efforts improved substantially in 2001, particularly in the areas of interdiction and overall prosecution statistics. With assistance from the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL), the NDLEA launched a more aggressive drug interdiction campaign at the Lagos international airport, long known as a major gateway for U.S. and Europe-bound narcotics. This effort coincided with the resumption of direct (nonstop) flights from Lagos to the United States in February, after a hiatus of eight years. The report of only one seizure made by U.S. authorities at the port of entry of the flight (New York's John F. Kennedy Airport) is evidence of greatly improved screening by the NDLEA in Lagos.

The Nigerian government also improved its record of drug-related prosecutions. Using special drug courts, a more energetic effort by the NDLEA to prosecute drug traffickers efficiently and successfully produced over 2,000 convictions in 2001. In a notable November 2001 case, the NDLEA froze a bank account containing 1.6 million Naira (U.S. \$14,035), which belongs to a suspected drug trafficker and money launderer.

The Government of Nigeria also pledged to design a mechanism to process U.S. extradition requests expeditiously while observing due process under Nigerian law, in accordance with the Nigerian constitution. This mechanism will include the creation of an exclusive extradition team of public prosecutors and the designation of a High Court judge dedicated to extradition cases. In December 2001, the (late) Attorney General designated a High Court judge exclusively to hear extradition cases. While extradition requests were formerly heard in any court, including lower magistrates courts, the government has now centralized the handling of all U.S. extradition requests in the Federal High Court of Abuja.

At Nigeria's initiative, a high level U.S.-Nigeria law enforcement dialogue began in 2001. The first meeting of this semi-annual forum, the Bilateral Law Enforcement Committee, took place on November 9 in Washington, D.C. and covered the full range of U.S. and Nigerian law enforcement interests: drug control; financial fraud; trafficking in persons; corruption; immigration crimes; police reform; extradition; and money laundering. The dialogue has already led to commitments by Nigeria to take significant steps toward mutually agreed goals by March 2002.

**Law Enforcement Efforts.** Nigerian counternarcotics efforts primarily focus on the interdiction of couriers transiting Nigeria's air and seaports as well as a public campaign focused on destroying plots of cultivated marijuana throughout the country. Improved drug interdiction efforts at the Lagos airport and seaports led to a 40 percent increase in total drug seizures over 2000. Forty-three kilograms of heroin and 98 kilograms of cocaine were seized during 2001. Heroin seizures fell by almost 25 percent, while cocaine seizures almost doubled from a year earlier. This included a record seizure of 60 kilograms of cocaine at the Lagos seaport of Tin Can Island. The number of drug-related arrests increased to 3,592 from 2,385 in 2000, and 2,041 drug convictions were handed down during 2001, compared to 1,624 in 2000. Major narcotics smugglers and their networks continue to elude arrest and prosecution, even though the NDLEA recently began an intensified effort to investigate major international drug traffickers operating in Nigeria, in cooperation with the DEA. Attempts by the NDLEA to arrest and prosecute major traffickers and their associates often fail in Nigeria's weak judicial system, which is subject to intimidation and

corruption. Asset seizures from narcotics traffickers and money launderers, while permitted under Nigerian law, have never systematically been utilized as an enforcement tool, but some convicted traffickers have had their assets forfeited over the years. However, the number of traffickers so far penalized remains small.

**Corruption.** Corruption is a pervasive problem in Nigerian society. Estimated unemployment is over 25 percent. Civil servants' salaries are low. In addition, salaries are frequently months in arrears, compounding the corruption problem. After its inauguration, the Obasanjo administration embarked on a public anticorruption campaign. Legislation was enacted and an Anti-Corruption Commission was formed. This commission began prosecution of several minor officials on corruption charges, and initiated investigations into allegations of high-level corruption. The commission also has hired its first non-seconded staff of prosecutors, investigators, and administrators. The U.S. government is providing the commission with training and technical assistance for its new staff. Another commission was established to review government contracts awarded by past administrations.

The Obasanjo administration, unfortunately, has made limited progress toward transparency and openness in its contracting and decision making process. A number of criminal cases, launched by the Anti-Corruption Commission against public officials accused of bribe-taking, are moving forward and are expected to conclude early in 2002, although an appeal to the Supreme Court challenging the commission's constitutionality has delayed these cases. Meanwhile, corruption remains a significant obstacle to counternarcotics efforts, especially in the judicial process. While the NDLEA has attempted to purge its ranks of officers suspected of corrupt practices, a fear of corruption hampers inter-agency cooperation as agencies are often distrustful and unwilling to share information.

**Agreements and Treaties.** Nigeria 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. Nigeria has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, the Protocol against the Smuggling of Migrants, and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms. 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. In 1989, the United States and Nigeria entered into a mutual cooperation agreement for reducing demand, preventing illicit use, and combating illicit production and trafficking in drugs. The United States and Nigeria also signed in 1989 a mutual legal assistance treaty, which the United States ratified in 2001 and is pending approval by the Nigerian Parliament. Nigeria is a party to the World Customs Organization's Nairobi Convention, Annex on Assistance in Narcotics Cases.

**Cultivation/Production.** Cannabis is the only illicit drug produced in any large quantities in Nigeria. The drug is produced in all 36 states. Major cultivation takes place in central and northern Nigeria and in Delta and Ondo states in the south. Marijuana, or "Indian Hemp" as it is known locally, is sold in Nigeria and exported throughout West Africa and into Europe. To date, there is no evidence of significant marijuana imports from Nigeria into the United States. The NDLEA has been engaged in an active eradication campaign. Through November 2001, the NDLEA claimed to have seized more than 290 metric tons of cannabis and eradicated more than 270 hectares of cannabis plants in the field. In August 2001, the NDLEA invited dignitaries and the diplomatic corps to a narcotics destruction ceremony in Lagos to highlight the agency's seizures of narcotics throughout the country.

**Drug Flow/Transit.** Nigeria is a major staging point for Southeast and Southwest Asian heroin smuggled to Europe and the United States and for South American cocaine transported to Europe. While Nigeria remains Africa's drug transit hub, there are indications that the preferred methods of transshipment have changed. Improvement of the overall security posture at Murtala Mohammed International Airport has forced drug traffickers to ship by sea from Nigerian seaports, concealing large quantities of contraband in shipping containers. They also use other West African airports with more lax security controls.

**Domestic Programs (Demand Reduction).** Local production and use of marijuana have been a problem in Nigeria for some time, however, according to the NDLEA and NGOs, the abuse of harder drugs (e.g., cocaine, heroin) is now on the rise. Heroin and cocaine are readily available in many of Nigeria's larger cities. Law enforcement officials admit that Nigeria remains a major narcotics transshipment point, but some officials deny that domestic drug abuse is on the rise. U.S. officials and training instructors find that many Nigerian officials do not understand that by serving as a transit point, Nigeria may itself begin to suffer significant drug abuse problems, like many other similar transit points worldwide. The NDLEA continues to expand its counternarcotics clubs at Nigerian universities and distribute counternarcotics literature. The NDLEA also has instituted a teacher's manual for primary and secondary schools, which offers guidance on teaching students about drug abuse.

#### IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** U.S.-Nigerian counternarcotics cooperation focuses on interdiction efforts at major international entry points and on professionalizing the NDLEA and other law enforcement agencies. U.S. training and material assistance have continued, with the NDLEA as the primary target. The U.S. DEA office deals with a small group of NDLEA representatives to lessen the chance of compromise by corrupt individuals. USG working-level representatives enjoy good access to their counterparts and there is an evident desire on both sides to strengthen these relationships. The new NDLEA chairman appears committed to meeting agency goals and improving the morale of NDLEA officers. The United States and Nigeria held bilateral discussions during 2001 on the need to reform Nigeria's police as part of the preparations to implement a U.S.-funded police reform program in 2002. The Nigerian government has reviewed plans for reform and U.S. agencies have prepared their own suggestions for ways to proceed, but the task will be formidable as the police lack so much in the way of equipment, and their morale has suffered over the years as the situation deteriorated. For example, salaries are low and frequently paid months late.

**Bilateral Accomplishments.** In 2001, at the request of the GON, a U.S.-Nigeria Bilateral Law Enforcement Committee was created to advance mutual drug and crime control issues. Co-chaired by Nigeria's Attorney General and the State Department's Assistant Secretary for International Narcotics and Law Enforcement Affairs, the group met for the first time in November 2001 in Washington. This meeting produced a joint declaration containing Government of Nigeria pledges to: introduce new money laundering legislation; begin investigation of at least one major drug trafficker in cooperation with DEA; draft and introduce to the National Assembly new legislation allowing for the civil forfeiture of assets derived from organized crime or drug-trafficking; commence extradition proceedings of individuals wanted for prosecution by the U.S. government; and boost resources for the new Anti-Corruption Commission. Meanwhile, the DEA office in Nigeria continues to work with the NDLEA on expanding their relationship. New Department of State assistance to the NDLEA allowed for a stronger interdiction posture at the Lagos international airport, Nigeria's largest drug transit point, forcing many traffickers to route drug shipments through neighboring countries. Department of State assistance has also been provided to the Nigerian Police Force to improve investigations and enforcement operations against criminal organizations involved in advance fee or 419 Fraud, which largely targets American citizens and businesses. The United States also provided training for NDLEA personnel on general investigative techniques and sent two NDLEA officers responsible for drug interdiction at the Lagos international airport to a specialized training course in the United States.

**The Road Ahead.** The U.S.-Nigerian relationship has improved significantly with the reintroduction of democratic government in Nigeria. During the past year President Obasanjo demonstrated his commitment to the international drug fight by increasing the NDLEA's budget by 200 percent and giving this agency long-awaited operational access to Nigeria's sea ports. Nevertheless, much remains to be done in the area of drug control; and the Nigerian government needs to address key weaknesses, including the processing of U.S. extradition requests and the local prosecution of major drug traffickers. As noted elsewhere in this report, the narcotics and crime problems in Nigeria are deeply rooted in Nigeria's present

governmental system, and in Nigerian society. It will require strong political will and continued international assistance for any Nigerian government to confront these difficult issues and bring about meaningful change.

The U.S. government is working to aid Nigeria in its counternarcotics efforts. One area of prime concern is the judiciary. Law enforcement efforts are often stymied by the slow pace of the judicial system, which can be attributed to both intimidation and corruption of the judiciary by criminal organizations. The U.S. Agency for International Development has implemented a “Rule of Law” program with the Nigerian government to help strengthen and professionalize the judiciary. Through the framework of the new Bilateral Law Enforcement Committee, the Nigerian government has committed itself to the establishment of a reliable extradition process that will allow extradition requests to be heard expeditiously and fairly. Many U.S. extradition requests for narcotics traffickers have been outstanding for years.

The U.S. government is also concerned about fundamental problems with the Nigerian Police Force and other law enforcement agencies. While President Obasanjo and his advisors are aware of the need to modernize the police as a key pillar of democratic consolidation, little has been done to address key issues such as low salaries for police and other law enforcement personnel. Salary arrears also remain a problem. The Government of Nigeria needs to demonstrate a commitment of its own resources to the fight against narcotics trafficking and transnational crime in order to strengthen its case for additional foreign donor assistance.

The U.S. government will continue to actively engage Nigeria on the issues of counternarcotics and money laundering. There have been successes in the last year, but long-term progress will only come about through the continuation of serious dialogue and cooperation, and a willingness on the part of Nigeria’s government to confront difficult issues. The underlying institutional and societal factors that contribute to narcotics-trafficking and money-laundering activities in Nigeria are deep-seated and require comprehensive, long-term solutions.

# Saudi Arabia

## I. Summary

Saudi Arabia has no appreciable drug production and is not a significant transit country for drug traffickers. Saudi Arabia's conservative cultural and religious norms discourage drug abuse. The Saudi government places a high priority on combating narcotics abuse and trafficking. Since 1988, the government has imposed the death penalty for drug smuggling. Due to these factors, drug abuse and trafficking do not pose major social or law enforcement problems. However, Saudi officials privately acknowledge that illegal drug use is on the rise. Saudi Arabia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Saudi Arabia has no significant drug production and, in keeping with its conservative Islamic values and obligations under the 1988 UN Drug Convention, places a high priority on fighting narcotics abuse and trafficking. Narcotics-related crimes are punished harshly, and narcotics trafficking is a capital offense, with the death penalty enforced against Saudis and foreigners alike. As of December 1, 21 convicted traffickers had been executed in 2001. Saudi Arabia relies on a network of overseas drug enforcement liaison offices and on state-of-the-art detection and training programs to combat drug trafficking.

While Saudi officials are determined in their counternarcotics efforts, drug trafficking and abuse is a growing problem, albeit a minor problem compared to many western nations. Since the Saudi government provides no statistics on drug consumption, interdiction, and trafficking, it is difficult to substantiate this assessment with hard data. However, anecdotal evidence suggests that Saudi Arabia's relatively affluent population, large numbers of unemployed youth, and high profit margins on smuggled narcotics make the country an attractive target for drug traffickers and dealers.

The Saudi government undertakes widespread counternarcotics educational campaigns in the media, health institutes, and schools. Government efforts to treat drug abuse are aimed solely at Saudi nationals, who are referred to one of the nation's four drug treatment centers. There are no separate facilities for Saudi women, and expatriate substance abusers are jailed and summarily deported. Health officials confirm anecdotal reports of a general increase in substance abuse, but note that most addictions are not severe due to the scarcity of available narcotics and their diluted form. Heroin and hashish are the most heavily consumed substances, but Saudi officials report that cocaine and amphetamines are also in demand. Paint/glue inhalation and abuse of prescription drugs is also reported.

## III. Country Action Against Drugs in 2001

**Policy Initiatives.** The lead agency in Saudi Arabia's drug interdiction efforts is the Ministry of Interior, which has over 20 overseas offices in countries identified as representing a trafficking threat. In addition, the Saudi government continues to play a leading role in efforts to enhance intelligence sharing among the six nations of the Gulf Cooperation Council. Saudi Arabia is a donor to the UNDCP and its drug enforcement personnel regularly participate in international training programs.

**Accomplishments/Law Enforcement Efforts.** In June 2001 and at the USG's request, the Saudi government deported a U.S. citizen to the U.S. to face narcotics-related charges. This extradition was an unprecedented step forward in U.S.-Saudi counternarcotics cooperation. Drug seizures, arrests, prosecutions, and consumption trends are not matters of public record, although reports of drug seizures by Saudi officials appear occasionally in local newspapers. Saudi interdiction efforts tend to focus more on individual carriers than on follow-on operations designed to identify drug distributors and regional networks. After training by U.S. Customs Service advisors, Saudi customs agents employ advanced

detection techniques which have yielded an increase in drug seizures, predominantly heroin, hashish, and pills, at some points of entry.

**Corruption.** The USG has no evidence 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 are no extradition or mutual legal assistance agreements between the U.S. and Saudi Arabia, although Saudi Arabia is a party to the 1988 UN Drug Convention. Saudi Arabia is also a party to the 1961 Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances.

**Cultivation/Production.** Cultivation and production of narcotics in Saudi Arabia is negligible.

**Drug Flow/Transit.** Saudi Arabia is not a major drug transshipment point. Due in part to new detection techniques employed at major points of entry, seizures of narcotics, 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 providers, and mothers. Executions of convicted traffickers—public beheadings which are widely publicized—are believed by Saudi officials to serve as a deterrent to narcotics trafficking and abuse. The country's influential religious establishment actively preaches against narcotics use and government treatment facilities provide free counseling to male Saudi addicts.

#### **IV. U.S. Policy Initiatives and Programs**

The U.S. seeks to enhance bilateral and multilateral cooperation with the Saudi government. Saudi officials actively seek and participate in U.S.-sponsored training programs and are receptive to enhanced official contacts with DEA.

**The Road Ahead.** The U.S. will continue to arrange regular visits of DEA officers to Saudi Arabia. It will also explore opportunities for additional bilateral training and cooperation.

# Senegal

## I. Summary

Senegal saw a decrease in the trafficking of cocaine and heroin in 2001 while marijuana production and trafficking continues to be a problem for the counternarcotics elements of the government. Senegal funded and began to implement the 1997 National Plan of Action Against Drug Abuse and Trafficking in Drugs in 2001. Senegalese counternarcotics authorities have taken active steps to pursue bilateral cooperation against international traffickers, including signing assistance agreements with the U.S., France, and the UK. Education and strict enforcement of drug laws remain the cornerstone of Senegal's counternarcotics effort. Senegal is a party to the 1988 UN Drug Convention.

## II. Status of Country

While trafficking of all types of drugs, including heroin, cocaine, and psychotropic depressants, exists in Senegal, it is cannabis production and trafficking that has continued to stymie enforcement efforts. The areas in southern Senegal's Casamance region are the source of the cannabis trade. The area is home to a small, but violent rebel insurgency that has prevented efforts to stop the marijuana trade. Cannabis transit is becoming increasingly significant especially by sea container transport from the 16 islands that make up the Casamance. This area is for all practical enforcement purposes beyond government control. Marijuana produced in the Casamance finds its way into Dakar, the capital city. For example, more than a ton of marijuana was seized in Dakar during the first six months of 2001. Stiff penalties for offenders have been effective in reducing the quantity of heroin, cocaine, and psychotropic substances on the streets of Dakar.

The port of Dakar and the international airport of Dakar are the two principal points of entry/exit of drugs in Senegal. Senegalese authorities state that because there is not a direct flight from South America, Cape Verde serves as a bridge for cocaine coming into Senegal.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Senegal began implementation of the 1997 National Plan of Action Against Drug Abuse and the Trafficking of Drugs. This plan is multidisciplinary in its approach, having among its objectives:

- to control the cultivation, production, and traffic of drugs;
- to inform the population of the dangers of drug use; and
- to develop a program to rehabilitate and re-introduce drug addicts to society.

Also in 1997 an inter-ministerial committee to fight against drugs was established. The purpose of this committee is to elaborate and coordinate the national political fight against drugs. In the year 2000 the committee implemented a demand reduction program in the Casamance region delivered by a non-governmental organization. The first phase involved an information campaign, insisting that the land had greater potential if it were used for other purposes than drugs, that drugs were bad for the environment and one's health, and that drugs were degrading the economy. Village committees have been established to pass on the above information in an effort to sensitize people to the problem of drugs. The second phase of the program began in 2001, with the village committees suggesting that farmers substitute alternative crops for drugs on their land. These programs, due to funding constraints, have been slow to be implemented and the goals have yet to be realized. Only occasional seizures and arrests of international traffickers have resulted.

Traffickers and their organizations are subject to asset seizures, imprisonment, and permanent exclusion from Senegal if convicted.

**Agreements and Treaties.** Senegal is a party to the 1988 UN Drug Convention, the 1971 Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Senegal has several bilateral agreements with neighboring countries to combat narcotics trafficking and has signed mutual assistance agreements with the United Kingdom and France in efforts to combat narcotics trafficking. Senegal is also a party to the Economic Community of West African States (ECOWAS) protocol agreement, which includes an extradition provision. Senegal signed in December 2000 the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Corruption.** By regional standards, corruption in Senegal is relatively modest. Nevertheless, it could facilitate narcotics trafficking. The authorities are aware of the problem, and do what they can to ameliorate the affects of corruption on important aspects of administration such as the battle against dangerous drugs.

Neither the Government of Senegal nor senior officials of the Government encourage or facilitate production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

#### **IV. U.S. Policy Initiatives and Programs**

U.S. goals in Senegal are to strengthen law enforcement capabilities in counternarcotics efforts. To this end, the U.S. and Senegal signed in 2001 a letter of agreement, under which the U.S. is providing assistance to build a regional drug laboratory in Dakar and train counternarcotics agents in drug investigation and interdiction methods. The program will provide \$220,000 for various law enforcement programs that will aid the police in all aspects of narcotics investigations and prosecutions. The laboratory and training facilities are scheduled to begin operations in early 2002.



# South Africa

## I. Summary

South Africa is committed to fighting domestic and international trafficking in illicit narcotic drugs, but reliable evidence suggests that the country continues to be an important transit area for cocaine from South America and heroin from the Far East. The cocaine and heroin that transits South Africa is destined primarily for domestic Southern African or European markets. In addition to being a large producer of cannabis, most of which is consumed in the Southern African region, South Africa may be the world's largest consumer of Mandrax. Mandrax, a variant of methaqualone, is the drug of abuse of choice in South Africa, and its smuggling, primarily from India but also from China and other sources, is the single most important money-earner for indigenous South African organized crime groups. In 1997, a study conducted by the South African Police Service found 192 indigenous organized criminal gangs active in all of South Africa. Ninety-two of these gangs were primarily focused on the international smuggling of narcotics, with Mandrax the leading drug.

South Africa is a party to the 1988 UN Drug Convention. In 2001, South Africa and the United States exchanged instruments of ratification to bring into force an extradition treaty and a mutual legal assistance treaty. South Africa's Prevention of Organized Crime Act, particularly the asset forfeiture section, is becoming a useful tool for law enforcement.

## II. Status of Country

South Africa's transition to democracy and its integration into the world economy have been accompanied by the increased use of its territory for the transshipment of contraband of all types, including narcotics. Outdated regulatory and legislative infrastructures and a criminal justice system that is stretched just to deal with common "street crime" make South Africa a tempting target for international organized crime groups of all types. With assistance from the United States and other donors, South Africa is making slow progress in crafting an appropriate response to this situation.

South Africa has, for some time, been the origin, transit point, or terminus of many major smuggling routes; this was true during the apartheid period, and it is even more so now. Additionally, South Africa has the most developed transportation, communications, and banking infrastructure in sub-Saharan Africa. The country's modern international telecommunications systems, particularly wireless telephones, 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. Narcotics trafficking is very profitable for organized crime syndicates, and they have become heavily involved in stealing vehicles and trading them across South Africa's land borders for narcotics.

South Africa continues to rank among the world's largest producers of cannabis. The drug is consumed locally and exported to other countries, but there is no evidence that cannabis produced in South Africa has a significant effect on the United States. Smuggling of cannabis to Europe continues to increase.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Combating the use of and the trafficking in illicit narcotics is an important component of the anticrime agenda of the Government of South Africa (SAG). South African Police Service (SAPS) Commissioner Selebi has said publicly that fighting drugs is one of his top priorities. The SAPS organized crime threat analysis has identified the trafficking and use of drugs as the top organized crime threat. Recent studies have shown that drugs serve as the catalyst in a considerable proportion of violent crimes. On average, the studies found that 45.6 percent of arrestees in South Africa test positive for at least one

drug. The average was higher in connection with violent crime. South Africa has one of the world's highest murder and rape rates.

South Africa's porous borders are crossed daily by criminals trafficking in many forms of contraband, including, but certainly not limited to illicit narcotics, stolen cars, illegal firearms, diamonds, and precious metals. In 2001, the SAPS reorganized themselves, collapsing most of their 502 specialized units into organized crime task forces that deal with various types of crimes, including narcotics smuggling. The SAPS Narcotics Bureau (SANAB), for now, remains a specialized unit. However, the SAPS plans to integrate the narcotics specialists into the organized crime task forces. It is too early to tell whether or not the reorganization of the SAPS has had any impact on organized crime.

The Central Drug Authority (CDA), comprising government officials, NGOs, researchers, and officials from the drug treatment community, began to meet regularly in 2001. The group is tasked primarily with implementing the National Drug Master Plan, coordinating counternarcotics programs, acting as an authoritative advisor to the government, and initiating measures to combat the abuse of drugs, among others. The CDA is also beginning to work with the SAPS on school-based drug education programs.

**Accomplishments.** The National Directorate for Public Prosecutions (NDPP) in 2001 advanced its understanding of the new 1998 Prevention of Organized Crime Act (POCA), which outlawed certain criminal conspiracies and put teeth into previous legislation outlawing money laundering. The NDPP put a few test cases through the judicial system. The NDPP also established, with U.S. assistance, an approval process for the cases being prosecuted under the POCA. The NDPP anticipates that the law will be used more extensively in 2002, to include some narcotics trafficking cases.

The National Assembly's Justice Committee is currently deliberating on the Interception and Monitoring Bill, which will regulate the monitoring of communications by the government and private citizens. The new legislation covers cell phones and the Internet in addition to older technologies and will replace the current law. The SAG believes that having the ability to trace all cell phone conversations will be a vital weapon in the fight against organized crime. The Justice Committee hopes to complete deliberations on the bill early in 2002.

**Law Enforcement Efforts.** SANAB and the South African Customs Service continue to make seizures of cocaine and increasingly, heroin, arriving in South Africa at international airports as well as to a lesser extent at border crossings. In July, the SAPS, in coordination with the shipping industry, intercepted a vessel en route from Argentina to China and seized 116 kilograms of cocaine worth approximately U.S. \$25 million. In addition, in August, the SAPS seized 155 kilograms worth of cocaine on a vessel en route from Brazil to China. This cocaine had an estimated street value of U.S. \$32.5 million. The aerial wing of the police carries out an airborne cannabis eradication program domestically and also offers limited cannabis eradication to regional states. However, due to a lack of operational funding, these operations have become much reduced.

Increased training of South African police by the DEA have led to more seizures of drugs destined for export this year, especially in the Durban area. Durban has also benefited from the formation of a special drug unit at its port, targeted on containers.

The Revenue Service reorganized the South African Customs Service last year to make it more effective in interdicting and investigating smuggling of all types, including narcotics trafficking. Improvements in its performance are already clear, and further improvements are anticipated as the new organizational arrangements become more familiar. South African Customs continues to be active in investigating the use of the postal system for international criminal activities.

A discussion on drug control in South Africa is incomplete without consideration of South Africa's broader law enforcement issues. While law enforcement in South Africa is frequently excellent by any standards, the internal problems in law enforcement that exist in most agencies impede both anticrime and counternarcotics efforts. In addition to equipment and coordination issues, which reduce the effectiveness of enforcement efforts in many countries, South Africa also has the unique problem that a short while

ago, the role of its national police was to enforce apartheid. The continuing legacy of this fact poses a special challenge to law enforcement in South Africa. Lingering racism and inappropriate use of violence, especially by white officers against black suspects, and a view among whites that black criminal violence against them is underplayed in black-majority South Africa limits police-civilian cooperation against crime. In addition, South Africa's counternarcotics efforts are further complicated by its reliance on less effective neighbors to interdict contraband headed its way. Zambia, Mozambique, and Swaziland provided the most popular transit routes for the smuggling of Mandrax into South Africa.

**Corruption.** Officials accused of corruption can be prosecuted under the 1992 Corruption Act. Accusations of widespread police corruption are frequent, but the experience of U.S. law enforcement officials working from the U.S. Embassy in South Africa is that many of the failures and lapses by the police can be attributed as much to a lack of training and resources as to corruption. Credible evidence of narcotics-related corruption among senior South African law enforcement officials has not been brought to light. Nevertheless, some low-level corruption and much mal/misfeasance among border control officials do appear to contribute to the permeability of South Africa's borders.

**Agreements and Treaties.** South Africa is a party to the 1996 Southern African Development Community (SADC) Protocol on Combating Illicit Drug Trafficking. South Africa is also a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. In September 1999, the United States and South Africa signed a mutual legal assistance treaty and a new extradition treaty to replace the existing 1947 extradition treaty. Instruments of ratification were exchanged in 2001 to bring the bilateral treaties into force. In December 2000, South Africa signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. In September 2001, the United States and South Africa also signed a letter of agreement on anticrime and counternarcotics assistance, which provides for U.S. training and commodity assistance to several South African law enforcement agencies.

**Cultivation/Production.** South Africa is one of the world's leading producers of marijuana. Locally called "dagga," it grows wild and is a traditional crop used in many rural areas of South Africa, particularly the Eastern Cape and Kwa-Zulu Natal provinces. It also is cultivated in neighboring Swaziland and Lesotho. It is possible to have three cannabis crops a year in some areas of Southern Africa. Although most of South African-produced cannabis is consumed domestically, the country is fast becoming known as an exporter of the drug. The drug liaison officer, stationed at the UK Embassy in Pretoria, working with South African enforcement officials, has made numerous controlled deliveries of ten to 30 kilograms in the past two years. Other similar seizures have been reported as far away as Japan and Australia. Some sense of the scale of marijuana traffic in Southern Africa can be garnered from this year's seizure figures in excess of 717 metric tons.

South Africans are the world's largest consumers of Mandrax. Mandrax is both smuggled into and produced in South Africa for domestic consumption. SANAB seized five operating Mandrax laboratories in South Africa in 2000, and has seized six more since then. These laboratories obtain some chemicals from Europe, but the most essential precursors come from India and Pakistan. Mandrax trafficking has traditionally been, and continues to be, controlled by the Indian ethnic community. In South Africa, Mandrax is often smoked in a homemade bottle-pipe with low-grade cannabis, a practice called "smoking the White Pipe." Research has shown that South Africa is the only place in the world where this odd abuse usage is prevalent.

**Drug Flow/Transit.** Cocaine, in significant amounts, reaches South Africa from South America, although smuggling groups in neighboring countries are also targeting South Africa as their market. Cocaine continues to be controlled in South Africa by Nigerian trafficking groups based in Johannesburg. According to the DEA, it appears as if these groups have permanently stationed operatives in Quito, Lima, and Sao Paulo, who control the couriers when they arrive from South Africa. Nigerian drug trafficking organizations are recruiting South Africans, and also using Nigerian couriers with fake or

fraudulently obtained passports. Lately the passport of choice seems to be from the UK. Most of the cocaine trafficked into South Africa is done through body carrying or in luggage. The Nigerian groups maintain tight control of the distribution of cocaine right down to the street level. South African consumption of cocaine, both powder and crack (crystalline), is increasing dramatically according to studies conducted in South African treatment centers. This increase in the use of crack has occurred even though its street price puts it out of reach for much of the population.

Mandrax traffic in South Africa is closely entwined with auto theft rings. Many cars stolen in South Africa are taken to Zambia where they are exchanged for Mandrax which is then smuggled back to South Africa. The port of entry of choice for Mandrax continues to be Mombasa, Kenya, with Dar Es Salaam, Tanzania, and Maputo, Mozambique following closely behind. However, in 2000, the DEA and the SAPS initiated an investigation into a Johannesburg-based Indian organization, which smuggled more than six tons of Mandrax into the country in one consignment.

Heroin is smuggled into South Africa from Southwest and Southeast Asia using many of the same routes used for Mandrax. Much of the heroin is destined for onward shipment to Europe and, possibly, some small amount to the United States. However, heroin consumption among South African youth and some young people in other countries has also increased, particularly with the advent of smokable heroin. According to the DEA and local NGOs monitoring epidemiological data in South Africa, South Africa has experienced a 40 percent increase in intravenous heroin users over the last three years, raising further concerns about the increased spread of HIV/AIDS.

Groups trafficking in MDMA (ecstasy) include “biker” gangs and loosely confederated opportunists providing the drug for “rave” parties and distribution among youth. The drugs are usually carried by couriers via commercial air from Europe or sent via parcel post.

**Domestic Programs (Demand Reduction).** South Africa has had a long history of Mandrax and cannabis abuse. Drug counselors have noted increases in the number of patients seeking treatment for crack, heroin, and “club-drug” (such as ecstasy) addictions in the past two to five years. However, heroin use is probably the fastest growing drug abuse problem in South Africa. In addition, data has shown a marked increase in the demand for treatment by persons younger than 20 years old, with some centers reporting usage by children as young as seven or eight. General budgetary constraints have meant that SAG subsidies for non-government drug rehabilitation agencies have been drastically cut in the last two to three years. There are many people seeking treatment who are unable to register with any program, and for those who manage to enter a rehabilitation program, available services are constrained by lack of resources.

## IV. U.S. Policy Initiatives and Programs.

**Policy Initiatives.** Crime is an important issue in South Africa. While much criminal activity is restricted in its impact to South Africa, an important share of all crime has an impact on the region and on the rest of the world. U.S. law enforcement officers from the DEA, FBI, U.S. Customs Service, INS, and Secret Service cooperate successfully with their South African counterparts on most occasions. The United States also regularly urges the SAG to propose legislation that will strengthen South Africa’s legal system and provide a legal framework for prosecuting more sophisticated organized criminal activities, including drug trafficking. In support of these objectives, the United States helped train a new, elite South African enforcement force called the “Scorpions.” This unit targets organized crime and high-profile crime of all sorts. The U.S. law enforcement agencies, funded by the State Department’s Bureau for International Narcotics and Law Enforcement Affairs, also provide significant training to the SAPS and the SARS (Revenue Service Enforcement).

The United States is encouraging South Africa to initiate a drug education program in South Africa patterned after the Partnership for a Drug Free America. The United States is working on this project in connection with the Central Drug Authority and several SAG ministries.

**Bilateral Cooperation.** In 2001, the United States provided a complex fraud investigative computer programming tool to the organized crime units of the SAPS in an attempt to facilitate increased sharing of information among investigators in different parts of the country. The U.S. law enforcement community also provided extensive training to the Scorpions, SAPS, and SARS in 2001 on issues including investigating sexual offences, interviewing and interrogation techniques, gang violence, drug detection and monitoring, major case management, and complex fraud cases.

The United States' long-term anticrime and counternarcotics strategy includes a program of continued assistance to and cooperation with South African law enforcement and criminal justice authorities.

**The Road Ahead.** The commitment to create an effective legal and regulatory infrastructure to combat drug trafficking, and all other forms of organized crime, exists both in the SAG and in the SAG parliament. However, the process of implementing change is likely to be slow and uneven in the near future.

# Swaziland

## I. Summary

Drug activities in Swaziland primarily center on the production, packaging, and shipment of marijuana. The cash crop is consumed locally and also exported to South Africa. To some extent, marijuana is also exported to Europe and the U.S., but in modest quantities unlikely to have a significant effect. Swaziland's proximity to South Africa, its lack of effective counternarcotics legislation, limited enforcement resources, and relatively developed economic infrastructure make it enticing to those interested in targeting the relatively rich South African market. The Government of the Kingdom of Swaziland is aware of the drug problem within its borders and is cooperating with neighboring countries to fight drug trafficking. Swaziland is a party to the 1988 UN Drug Convention.

## II. Status of Country

Concern over illicit drug production and trafficking is growing. Bulk shipments of narcotics from South Africa are sent to Swaziland, where they are cut for retail distribution to South Africa, Europe, and to a lesser extent, the U.S.

The Royal Swaziland Police has an counternarcotics unit with a staff of 20. U.S. assistance has helped the counternarcotics unit to interdict illicit drug shipments, arrest traffickers, and eradicate cannabis; however, the unit's effectiveness is hampered by a lack of resources, outdated laws, and to a certain extent, corruption among related entities. The unit lacks adequate detection equipment, narcotics dogs, and office automation equipment. The unit's level of training continues to increase with the assistance of the International Law Enforcement Academy (ILEA) in Botswana, which offers workshops on a variety of topics, including weapons use and narcotics interdiction. At times, the unit is called upon to perform routine police work unrelated to narcotics, which detracts from its focus.

## III. Country Action Against Drugs in 2001

**Policy Initiatives.** Swaziland's narcotics law dates from the 1920s; however, the country is currently in the process of updating its counternarcotics law. During 2001, a U.S. Department of Justice consultant assisted the Attorney General's office in drafting new counternarcotics legislation. The resulting draft legislation is currently being reviewed by Southern African Development Community's (SADC) legal staff to assure compliance with the SADC protocol. In August 2001, King Mswati III gave his assent to the Serious Offences Act of 2001, which provides for the confiscation of proceeds of many serious offences, one of which is narcotics trafficking.

**Accomplishments.** Despite the lack of resources, the counternarcotics unit in 2001 made several highly publicized raids, seizures, and arrests including the arrests of a few local athletes alleged to be abusing illicit drugs. In early 2001, the Royal Swaziland Police seized compressed cannabis, cocaine, and heroin. The Royal Swaziland Police believe the drugs were destined for the U.S., the UK, and the Netherlands.

**Agreements and Treaties.** Swaziland is a party to the 1988 UN Drug Convention and the SADC protocol on combating illicit drug trafficking. It is also a party to the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. Swaziland has entered into agreements on narcotics control with Mozambique and South Africa, and with the UNDCP on a common project: "Capacity building against drug trafficking and organized crime in Southern Africa." The 1931 U.S.-UK Extradition Treaty applies to Swaziland. Swaziland has an extradition treaty with South Africa, as well as a protocol and mutual understanding on narcotics with Commonwealth Countries. Swaziland signed the UN Convention against Transnational

Organized Crime in December 2000, and signed the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants on January 8, 2001.

**Corruption.** Corruption exists to a certain extent among police, customs, and other government officials. During 2001, there were allegations that a member of the Correctional Services was smuggling marijuana to one prisoner and, in another case, the files of a suspected marijuana dealer on trial mysteriously disappeared. In general, expatriate police officials have characterized corruption as “mild,” and it is thought that the corruption affects interdiction, arrests, and convictions.

Neither the Government of Swaziland nor senior officials of the Government encourage or facilitate production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

**Cultivation/Production.** The primary illicit drug crop in Swaziland is marijuana, most of which is grown in the northern part of the country. According to marijuana eradication experts in South Africa, each hectare of marijuana can yield approximately 2,000 kilograms (2 metric tons) of dried marijuana. It is estimated that there are roughly 790 hectares currently growing in Swaziland, resulting in a possible yield of roughly 1.6 million kilograms (1,600 metric tons) of dried marijuana.

**Law Enforcement Efforts.** In 2001, the Royal Swaziland Police conducted a number of high profile raids, arrests, eradication campaigns, and drug burnings. For example, in late September, police raided a home in an exclusive Mbabane residential area and found 99 boxes of marijuana valued at nearly \$111,000. On July 25, the police destroyed 499 bags of marijuana, 357 compressed blocks of marijuana, and quantities of cocaine and heroin in a public ceremony. The value of these drugs totaled roughly \$133,000. In mid-June, police arrested and charged 16 people for illegal possession of over 200 kilograms of marijuana in separate incidents. Furthermore, nearly 120 police conducted a raid in the village of Nyonyane and, in the process, burned nearly \$1,110,000 of marijuana that was being cultivated in a nearby farm.

Cooperation with South Africa is excellent. In late March, the South African High Commissioner to Swaziland presented 12 backpack sprayers to the police to assist the counternarcotics unit in eradicating cannabis. Each year, the Government of Swaziland spends roughly \$11,000 to hire a helicopter from South Africa to help destroy marijuana in Swaziland. Both Swaziland and South Africa support UK-provided training and U.S. assistance.

#### IV. U.S. Policy Initiatives and Programs

In 2001 the U.S. donated two 4x4 trucks to assist the unit in its counternarcotics activities in rural areas. During 2001, a U.S. Department of Justice consultant assisted the Attorney General’s office in drafting new counternarcotics legislation.

The USG supports Swazi efforts to eradicate cannabis crops. Coordination is close with the regional DEA office in Pretoria and the Narcotics Affairs Section of the U.S. Embassy in Pretoria.

# Syria

## I. Summary

In 2001, the Syrian government continued to make progress in combating the drug trade within its own borders, although it remained a significant transit country. Jordan and the Gulf States are still the primary destinations for drugs transiting Syria from Lebanon and Turkey. Unlike in recent years, Syria did not use its influence in Lebanon to assist Lebanon in suppressing cannabis cultivation and harvesting in the Biqa' Valley. This fact, combined with a lack of Lebanese eradication and crop substitution efforts, led to a sharp increase in hashish production in Lebanon. Despite the increase in hashish production in Lebanon's Biqa' Valley, there is no indication that this cannabis finds its way to the U.S. in sufficient quantities to have a significant effect. , Syria's counternarcotics cooperation with neighboring Turkey and Jordan remained ongoing and robust. Syria's domestic drug abuse problem remained small, due largely to the active enforcement of existing laws and the cultural and religious norms that stigmatize substance abuse. Syria is a party to the 1988 UN Drug Convention.

## II. Status of Country

Most narcotics transiting Syria go to other parts of the Near East region and to Europe. Syria is a transit country for hashish and heroin, particularly from Turkey, but also from Lebanon. Syria is also a transit country for opium entering Lebanon from Afghanistan via Jordan. Opium transshipments through Syria decreased in 2001, as did shipments of cocaine from Brazil via Syria to Lebanon. On the other hand, there was an increase in shipments of drugs through Syria to Saudi Arabia and Israel via Jordan.

In the past, it has been alleged that Syrian military, particularly intelligence officers, have protected Lebanese narcotics (i.e., opiates) traffickers in return for corrupt payments. No members of the Syrian military stationed in Lebanon were prosecuted for drug trafficking in 2001.

Syrian counternarcotics officials maintain that Syria has no information about changes in the rate of drug production in the Syrian-controlled Biqa' Valley. These officials maintain that drug production in the Syrian-controlled Biqa' Valley has decreased significantly, even in remote mountainous areas without roads. They acknowledge that some low-ranking individuals in the Syrian military have been arrested in the past with small amounts of drugs, but maintain that there have been no cases of Syrian military involvement in narcotics trafficking in the past several years.

Syria was added to the list of major illicit drug producing or major drug-transit countries in the late 1980's because opium production in the Syrian-controlled Lebanese Biqa' Valley exceeded the threshold limits in the definition of "major illicit drug producing country" set forth in the Foreign Assistance Act of 1961, as amended. By 1991, it was estimated that 3,400 hectares of opium were being cultivated in the Biqa' Valley. In 1992, Syria and Lebanon launched a successful eradication campaign reducing poppy cultivation initially to approximately 150 hectares, and eventually eliminating it almost entirely. The cultivation of cannabis, processed into hashish primarily for non-U.S. markets, was also reduced drastically during this period. Once it was clear that opium cultivation with a significant impact on the U.S. had been almost entirely eliminated, Syria was removed from the Majors List in 1997.

While poppy cultivation in the Biqa' Valley remained negligible, cannabis cultivation increased significantly in 2001, from 200 hectares to approximately 4,010 hectares in early 2002, according to a reliable Lebanese expert. This increase was due to the lack of crop eradication efforts and effective crop substitution programs. This development raises the concern of a return to opium cultivation in the Biqa' Valley, should a market emerge for the product; Afghanistan has been more than meeting demand for opiates during the last several years.



### III. Country Actions Against Drugs in 2001

**Policy Initiatives.** Syria's anti-trafficking law of 1993 calls for the death penalty for certain narcotics-related offenses. In practice however most death sentences are commuted and the maximum sentence actually handed down is 30 years. There were no death sentences in narcotics-related cases in 2001. Many cases are pending under the anti-trafficking law, and there are ongoing prosecutions of drug offenders. There is also provision in Syrian law for the seizure of assets financed by profits from the drug trade. The government has used this legislation to seize assets on a case-by-case basis.

**Law Enforcement Efforts.** Syrian authorities have historically seized only very small amounts of precursor chemicals in transit. In 1999 the Syrian government implemented a 1996 plan to control these chemicals. Diversion of precursor chemicals through Syria is believed to occur on a small scale, although Syrian authorities reported an increase in the diversion of such precursors from Lebanon to Turkey via Jordan in 2001.

Until recently, Syria had cooperated closely with Lebanese authorities in enforcement efforts against cultivation and production of illicit drugs. However, in 2001, Syrian authorities did not continue this cooperation, at least with respect to the suppression of cannabis cultivation in Lebanon's Biqa' Valley. Syria continued to cooperate closely with Jordan on narcotics matters. Syrian counternarcotics officials maintain that cooperation with Turkey on narcotics control has steadily improved, and characterize the current working relationship as "excellent." Within Syria, Syrian authorities confiscated 5.2 kilograms of cocaine, 1.9 kilograms of opium, 360 kilograms of hashish, and 1.25 million captagon (ATS) pills. Syrian authorities reported the arrest of 1,504 individuals on narcotics-related charges in 1,135 narcotics-related cases in 2001.

**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 Syrian government 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 counter narcotics unit for corruption in 2001. The Syrian government does not as a matter of government policy encourage or condone the production or trafficking in narcotics.

**Agreements and Treaties.** Syria is a party to the 1998 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, and the 1971 Convention on Psychotropic Substances. In December 2000, Syria signed the UN Convention Against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. Syria is a member of INTERPOL. Syria maintains counternarcotics agreements with Cyprus, Iran, Jordan, Lebanon, Saudi Arabia, Egypt, Pakistan, Turkey, and Italy. The agreement with Turkey, part of a broader security arrangement, was signed in September, 2001 and concerns joint actions to combat smuggling of narcotics and precursor chemicals. The agreement with Italy was signed in January 2002<sup>2</sup> and focuses on information-sharing.

**Cultivation/Production.** The SARG has an effective counternarcotics system in place that has reduced cultivation and production of narcotics in Syria to negligible levels. As noted elsewhere in this report, cooperation with Lebanon to suppress illicit cultivation in the Syrian-occupied sections of the Biqa' Valley failed to prevent a resurgence in the illicit cultivation of cannabis.

**Drug Flow/Transit.** Drug interdiction remains the focus of the Syrian counternarcotics effort. Syrian officials estimate in 2001 that the overall flow of narcotics transiting Syria and destined for other countries in the region was approximately the same as in 2000. Transshipment of narcotics from Turkey continues to represent the major challenge to Syria's counternarcotics efforts. Seizure statistics suggest a significant

decrease in shipments of cocaine, heroin, and hashish. Cocaine transshipments via Jordan to the Gulf States have surpassed in volume cocaine shipments to Lebanon, which decreased in 2001.

**Domestic Programs (Demand Reduction).** As a result of the social stigma attached to drug use and stiff penalties under Syria's strict anti-trafficking law, the incidence of drug abuse in Syria remains low. The Syrian government's counternarcotics strategy, which is coordinated by the Ministry of the Interior, uses the media to educate the public on the dangers of drug use, and drug awareness is also part of the national curriculum for schoolchildren. Treatment is available through Syria's healthcare system.

#### IV. U.S. Policy Initiatives and Programs

**Policy Initiatives.** In meetings with Syrian officials, the U.S. continues to stress the need for diligence in preventing narcotics and precursor chemicals from transiting Syrian territory. The U.S. also emphasizes 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 on drug issues. Additionally, high-ranking U.S. officials periodically share their views and recommendations with the Syrian ministries of Foreign Affairs and Interior. There are no U.S.-funded counternarcotics assistance projects in Syria.

**The Road Ahead.** The U.S. will continue to encourage 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; and to continue to encourage Syria to improve its counternarcotics cooperation with neighboring countries. In light of the resurgence of illicit cannabis cultivation in the Bika' Valley, the U.S. will warn of the danger of the re-emergence of illicit poppy cultivation as well. The U.S. will also encourage Syrian officials to continue their work with their Lebanese counterparts to ensure that drug production in Lebanon remains at low levels; 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 and through Tanzania's porous borders. In addition, the domestic production of cannabis continues to grow. As a result, drug abuse, particularly involving cannabis, but also cocaine and heroin, continues to increase, especially among younger more affluent people. Violent crime associated with drug smuggling also increased during the year. To combat narcotics trafficking, Tanzania, along with Uganda, Kenya, and Rwanda, launched a regional counternarcotics trafficking initiative in June. Rampant corruption diminishes the capacity of institutions to combat trafficking. Tanzania is a party to the 1988 UN Drug Convention, and, in conjunction with UNDCP, is seeking to address objectives of that Convention.

## II. Status of Country

Until 1989, Tanzania's contact with drugs was largely limited to the traditional cultivation of cannabis in some parts of the mainland. Since then, the situation has changed dramatically and new drugs for Tanzania like Mandrax, cocaine, heroin, and opium have found their way into and through Tanzania's porous borders. In addition, the domestic production of cannabis is growing. As a result, drug abuse (particularly with more affordable substances like cannabis and Mandrax) is still increasing, especially among younger people. Harder drugs (heroin and cocaine) are used in small quantities within the affluent classes. Crack cocaine use appears to be growing more prevalent. The growing tourism industry, particularly in Zanzibar, continues to create a larger demand for narcotics there.

Tanzania is located along trafficking routes with numerous possible illegal points of entry. Illicit drugs entering Tanzania originate from Pakistan, India, Thailand, Burma, Iran, Syria, and South America, and are en route to Europe, South Africa, and to a lesser extent, the United States. The amount of drugs transiting Tanzania does not, however, significantly affect the United States. Drugs enter Tanzania by air, sea, roads, and rail. Major points of entry include airports in Dar es Salaam, Zanzibar, and Kilimanjaro, and sea ports at Dar es Salaam and Zanzibar, as well as smaller ports like Tanga and Mtwara. There were reports during the year that illegal activity through the port of Tanga had increased after the Government attempted to control graft and customs abuses in the major sea ports. Zanzibar, known to be a drug transit point through its sea and airports, apparently experienced less illegal activity in 2001 after the new Zanzibar administration began cracking down on corruption at the port and enforcing customs regulations. It is widely believed, however, that traffickers conduct a significant amount of narcotics smuggling off-shore in small "dhow" boats that do not stop in ports.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In 1995 Tanzania passed the Prevention of Illicit Traffic and Drugs Acts, which establishes severe punishments for the production and trafficking of narcotics. It stipulates long sentences, including life imprisonment, and permits seizure of assets used in illicit trafficking. Offenses under this act are not bailable. A 1995 act of parliament also created the Inter-Ministerial Anti-Drug Commission (IADC) (established in 1997) to define, coordinate, and promote Tanzania's national and sub-regional narcotics policies. In 1999 the UNDCP helped finance a workshop for the IADC to develop the framework for a national master plan to combat drug trafficking and abuse. A UNDCP-funded expert has been working with the commission and a plan has been submitted to the cabinet for approval. The plan originally was expected to be completed and published by mid-2001, but due to bureaucratic delays, it had not been finalized by year's end.

The Southern African Development Community, of which Tanzania is a member, has approved an counternarcotics action plan with the following objectives:

- Acquire information about drug use and trafficking in the region;
- Inform policy makers about the drug situation; and
- Develop a legal framework to counteract drug use and trafficking.

**Accomplishments.** While the counternarcotics efforts of Zimbabwe's law enforcement authorities showed improvement in some areas during the year (see Law Enforcement Efforts below), the government failed to institute the counternarcotics master plan.

**Law Enforcement Efforts.** Tanzania has three counternarcotics police units of more than 50 officers in Dar es Salaam, Zanzibar, and Moshi. A structured cooperation between counternarcotics police in Kenya, Uganda, Rwanda, and Tanzania is well established, with bi-annual meetings to discuss regional narcotics issues. This cooperation has resulted in an increase in communication, as well as effectiveness in their individual narcotics control efforts. In June 2001 the group launched a regional counternarcotics trafficking initiative. Through the UNDCP, Tanzania received \$700,000 in 2001 as counternarcotics assistance. These funds are used for capacity building for law enforcement, institution building, and demand reduction. Tanzania also participates in UNDCP regional projects.

In the most recent year for which accurate statistics are available, the GOT seized 7.1 kilograms of heroin in 1999, compared to 4.6 kilograms in 1997. In May 2001, in a joint operation with police from Malawi, South Africa, Botswana, Kenya, and Uganda, law enforcement officers seized ten grams of heroin, three grams of cocaine, and 6,079 kilograms of cannabis in four different regions of the country. Between June and August, Tanzanian police investigators conducted raids in ten different regions, seizing 150 tons of cannabis and 150 grams of heroin and arresting 1,132 individuals. In April, three Tanzanians, arriving from Lahore, Pakistan were arrested for possession of heroin at Dar es Salaam International Airport. A South African national was arrested in December for possession of cocaine as he transited Tanzania on the way from South America to Zimbabwe and South Africa.

**Corruption.** Pervasive corruption is a serious problem in the Tanzanian Police Force. The government took some steps during the year to discourage and punish such abuses. Most significantly, in June, the Inspector General of Police conducted a major reorganization in the police force. The reorganization was the largest in 20 years, and the stated intent of the action was to curb corruption. The Inspector General reshuffled police commanders on a smaller scale twice more during the year in November and December. Despite the personnel changes, as well as the activities of the Prevention of Corruption Bureau (PCB), there were numerous complaints from civil society about police corruption. In addition, it is evident that corrupt officials at airports facilitate the transshipment of narcotics through Tanzania. As a matter of government policy, however, the country 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; nor does any senior official of the government encourage such activities.

**Agreements and Treaties.** Tanzania is a party to the 1998 UN Drug Convention. Tanzania also has signed the Southern African Development Community (SADC) Protocol on Drug Control. The 1931 U.S.-UK Extradition Treaty is applicable to Tanzania by an exchange of notes in 1965.

**Cultivation/Production.** Traditional cultivation of cannabis takes place in remote parts of the country, mainly for domestic use. No figures exist, but police and government officials report that production continues to increase. In February 2001, working from an informant's tip, Tanzanian police officers in Dar es Salaam raided a clandestine drug manufacturing laboratory that produced Mandrax. The seizure of equipment demonstrated that Tanzania is becoming a manufacturing location for certain types of illegal drugs, such as Mandrax.

**Drug Flow/Transit.** Due to its location and porous borders, seaports, and airports, Tanzania has become a significant transit country for narcotics moving in sub-Saharan Africa. Control at the ports is

especially difficult as sophisticated methods of forged documents combine with poor controls and untrained and corrupt officials. Heroin trafficking in Tanzania is beginning to have an impact on the U.S. Afghan heroin entering Tanzania from Pakistan is being smuggled to the U.S. by Nigerian traffickers. In addition, a growing number of Tanzanians have been arrested abroad for serving as drug couriers. The Port of Dar es Salaam is a major entry point for Mandrax from India headed toward South Africa. Only small amounts of narcotics are seized due to lack of resources and corruption. Because of the limited training and operational capabilities of its counternarcotics officers, Tanzania's efforts are narrowly focused and extremely limited in effectiveness. Tanzanian police officers do not understand how to implement profiling techniques, and narcotics interdiction seizures generally result from heroin smugglers arriving from the Gulf or South Asia who become ill en route from ingested narcotics, or tips from police informants. Senior Tanzanian counternarcotics officials acknowledge that their officers are under-trained and under-resourced. In addition, low salaries for law enforcement officers provide a constant temptation for engaging in corrupt behavior and looking the other way when traffickers transit the country. Another example of lack of resources is that the Tanzanian Coast Guard, which is responsible for a large portion of Tanzania's border, including the Indian Ocean, Lake Victoria, Lake Tanganyika, Lake Malawi, and others, has only one functional boat, which was donated by the UK in 1998.

**Domestic Programs (Demand Reduction).** Tanzania traditionally was believed to be only a transit point for narcotics, but signs point to an increase in consumer use, particularly with lower cost drugs. There has been no study of narcotics consumption, but the UNDCP continues to work on the results of a rapid-assessment study of drug abuse in Tanzania. In addition, IADC is compiling narcotics statistics in a central data bank. It is 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 confirm that crack cocaine is available locally as well.

#### **IV. U.S. Policy Initiatives and Programs**

U.S. programs for addressing the narcotics problem in Tanzania are focused on training for law enforcement officials. In October and November, 24 police officers and immigration officials attended a course sponsored by the Bureau of Alcohol, Tobacco & Firearms on Rural Border Patrol Operations. In September and October, six Tanzanian police officers attended the Law Enforcement Executive Development Course at the International Law Enforcement Academy in Gaborone, Botswana. A significant portion of the course involved counternarcotics investigative techniques and training. In September, two counternarcotics officers attended a DEA-sponsored course on Clandestine Drug Laboratories in Pretoria. In January 2002, an counternarcotics officer attended a three-week course on narcotics and contraband interdiction in Gaborone.

# Togo

## I. Summary

Togo is drawn into the vortex of Nigerian drug trafficking because of its proximity to Nigeria, and some of the same problems of poverty and corruption which encourage drug trafficking in Nigeria. In 2001, the Government of Togo (GOT) made numerous drug-related arrests, including many at Lome's international airport. Most of the arrests involved Nigerian nationals trafficking cocaine and heroin. Togo is a party to the 1988 UN Drug Convention.

## II. Status of Country

Togo cultivates small amounts of cannabis primarily for local consumption. The GOT believes some small share of illicit cannabis is exported, but has no useful estimate. Togo's relatively porous borders permit narcotics traffickers relatively easy access into the country. This ease of access has made Togo a transit point for narcotics such as cocaine and heroin, although there is no evidence available to suggest that narcotics that transit Togo have a significant effect on the United States. Most of the narcotics traffickers who have been arrested in Togo have been Nigerian nationals travelling from Pakistan to West Africa.

## III. Country Action Against Drugs in 2001

**Policy Initiatives.** Togo has developed a sound national strategy to approach the drug problem:

- Improve the management of drug control;
- Promote research into trafficking routes and the nature of domestic drug demand; and
- Improve coordination among enforcement forces.

Togo's additional goals include:

- Improve cooperation among enforcement forces by creating a commonly accessible enforcement databank;
- Eliminate overlapping jurisdictions;
- Combat illegal domestic production through enhanced law enforcement and eradication;
- Combat money laundering of drug funds; and
- Follow a no tolerance policy: Combat all levels of the illegal drug problem, from the individual who is abusing prescription medicines to the drug kingpin who transships kilograms of heroin or cocaine through Togo.

**Law Enforcement Efforts.** Togo authorities are doing what they can to staunch the flow of illegal drugs through Togo, but efforts are hampered by budget problems and inadequately trained personnel. Other obstacles include borders that are difficult to police, and determined violators who swallow balloons filled with illicit drugs and seek to enter Togo via the air carrier Ethiopian Airways, which has service from Pakistan to West Africa. Togo's enforcement officials are aware of the threat accompanying the increase in international trade, which often leads to an increase in narcotics flow, but their best efforts remain inadequate to the challenge. The GOT believes increased drug flow through Togo has caused an upsurge in violent crime in general.

**Domestic Programs (Demand Reduction).** Togo has the following goals for reducing the demand for drugs:

- Use the media to discourage drug abuse;
- Increase rehabilitation efforts, including detoxification and counseling and support; and
- Reinforce rehabilitation by developing job-training programs and providing re-adjustment assistance to former addicts.

There is neither money nor infrastructure for rehabilitation programs for drug addicts; however, the National Narcotic Control Board continues to take proactive measures similar to the D.A.R.E. program in the United States. Through the creative use of soccer games among youth groups throughout the country, the committee has spread the word about the dangers of drug use and trafficking.

**Agreements and Treaties.** Togo is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention on Narcotic Drugs. Togo has signed the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

#### **IV. U.S. Policy Initiatives and Programs**

The U.S. tries to help the GOT improve its ability to interdict illicit narcotics entering Togo and to prosecute those traffickers who are caught. Togo's emerging willingness to confront the issue of illicit drugs is tempered by the country's ongoing transition to multi-party democracy and the weak state of GOT finances. The USG has been unable to provide any assistance to Togo's counternarcotics efforts, beyond training, over the last several years, but keeps Togo's needs under regular review.

# Tunisia

## I. Summary

Tunisia's role as a drug transshipment point is limited, but the government has continued its cooperation with neighboring states and with international bodies to interdict drug shipments. In 1992 Tunisia passed drug-enforcement legislation to implement the 1988 UN Drug Convention. The government has an active counternarcotics education program, focusing on youth, and encourages counternarcotics educational activities by NGOs. Tunisia is a party to the 1988 UN Drug Convention.

## II. Status of the Country

Tunisia is not a significant drug transshipment point, and it does not play a significant role in precursor chemical production. Tunisia is a transit point for individual smugglers taking hashish from Morocco to Europe. There are no published figures for consumption of narcotics. NGOs active in the field report that consumption is limited, but has increased in recent years, primarily at high schools, universities, and tourist resorts. There is a negligible amount of illicit cultivation of cannabis in northern Tunisia. Cannabis was cultivated legally for local use in pre-independence Tunisia.

## III. Country Actions Against Drugs in 2001

**Accomplishments.** The Government of Tunisia (GOT) continues to give a high priority to counternarcotics law enforcement, and during the year arrested and prosecuted drug traffickers and users. The Tunisian press reported on several significant cases during the year, including the trial of several French and Tunisian traffickers in the country's second-largest city of Sfax. Anecdotal evidence from some younger individuals indicates that hard drugs are difficult to find or buy in Tunisia.

**Corruption.** Tunisia does not, as a matter of government policy, 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. There is no evidence that any senior official of the government engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. The 1992 drug law provides for sentences to be doubled if a drug-related crime is committed by a drug enforcement official or person involved in the administration or guarding of drug warehouses or depots.

**Agreements and Treaties.** Tunisia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. In 1992 Tunisia enacted drug-enforcement legislation to implement the Convention. Tunisia is also a party to the Arab Convention against Illegal Trafficking in Drugs and Psychotropic Substances. Tunisia has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants.

**Drug Flow/Transit.** Tunisia is not a major drug transshipment country. There are reportedly some individual hashish smugglers from Morocco who transit Tunisia en route to Europe.

**Domestic Programs (Demand Reduction).** The GOT conducts drug education programs in schools and encourages NGOs to conduct complementary educational programs. There is not a significant addict population.



### **IV. U.S. Policy Initiatives and Programs**

The United States supports Tunisian efforts to comply fully with the 1988 UN Drug Convention, and it seeks Tunisian support for U.S. international counternarcotics initiatives. The United States has not provided counternarcotics assistance to the GOT in recent years. The United States in the past provided narcotics-related training assistance in maritime security for Tunisian customs officials.

# United Arab Emirates

## I. Summary

Although not a narcotics producing nation, the UAE is a transshipment point for traffickers moving illegal drugs westward from the major drug producing countries, including Afghanistan, Pakistan, and India. Two separate seizures of large quantities of illegal drugs in the emirates of Sharjah (1,102 kilograms of hashish) and Dubai (13.7 tons of hashish) during the past year underscore this conclusion. Besides the country's general laissez faire attitude toward trade, there are several other factors that make the UAE vulnerable to narcotics trafficking, including its proximity to major drug cultivation regions in South Asia, long (700 kilometers) coastline, and relative affluence. For a discussion of anti-money laundering measures the UAE took in 2001, see the Money Laundering section of this report.

Published statistics on narcotics seizures and domestic addiction reveal a growing drug problem among UAE and third-country nationals which, while not significant by U.S. standards, is notable given the country's harsh drug laws. The overwhelming majority of drug seizures have netted hashish, not heroin, opium, or cocaine. The Ministry of Interior's Federal Higher Anti-Drugs Committee is tasked with coordinating drug enforcement efforts for the seven emirates that form the UAE, as well as executing the country's counternarcotics strategy. The UAE 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

The UAE is a transshipment point for illegal narcotics from the drug cultivating regions of South and Southwest Asia en route primarily to Europe. Illicit narcotics transiting the UAE have reached the United States, although Western Europe is the principal market for these drugs.

The majority of arrests for illegal trafficking occur in the northern emirates. Factors that contribute to the prominence of the northern emirates are the emergence of Dubai and Sharjah as regional centers in the transportation of passengers and cargo, a porous land border with Oman, and the presence of active "free trade zones" in all the emirates except Abu Dhabi.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** In November 2001, the UAE government (UAEG) hosted the 36th session of the UNDCP Sub-commission on Illicit Drug Traffic and Related Matters in the Near and Middle East. The assembled delegates discussed a number of issues facing the region, including the likely impact of the Afghan crisis on future heroin production, the need to counter money laundering, and emerging drug trafficking trends. That an Emirati Brigadier General, Dr. Mohamed Khalifa Al-Mualla, agreed to stand for the Sub-commission's Chairmanship and was chosen, demonstrates the importance the UAEG attaches to regional cooperation against narcotics trafficking and the UNDCP's work.

The UAE continues to advance its national drug strategy aimed at reducing both the supply and demand for illegal drugs. Among the major supply reduction initiatives announced in 2001 was a proposal to create an Anti-Narcotics Department on the federal level to replace the existing federal committee for fighting drugs. This reorganization, if approved, would mean additional personnel and a larger budget to wage the war on drugs.

The UAE has continued to pursue the following other initiatives:

- the improvement through training of the country's counternarcotics units and the formation of special units for maritime counternarcotics operations;

- the passage of laws requiring better monitoring of precursor chemicals;
- increased cooperation with neighboring countries on information exchange and drug seizures; and
- enhanced cooperation with the UNDCP, the Nayif Academy for Security Science in Saudi Arabia, and other countries with expertise in counternarcotics efforts.

UAE authorities continue to participate in international counternarcotics fora. The UAEG has been extremely receptive to State Department, DEA, U.S. Coast Guard, and other U.S.-sponsored training.

The DEA has a close and continuing relationship with UAE officials and provided drug interdiction training to the UAE in 2001. The exchange of information between the two sides has led to at least one arrest. Also in the past year, the FBI has partnered with the Dubai police in the Middle East Law Enforcement Training Center, which offers training to UAE and GCC (Gulf Cooperation Council) law enforcement agencies. Courses in drug investigations and transnational crime, which will assist in combating illicit drugs, will be offered in 2002.

**Law Enforcement Efforts.** UAE authorities acknowledge that narcotics consumption is an increasing problem among the local population. Government statistics indicate that the number of registered addicts jumped from 253 in 1999 to 415 in 2000. In the emirate of Sharjah, a study of drug users seeking rehabilitation indicated that most addicts fell in the age group 18-29, that 44 percent had a good income, and that hashish, followed by heroin, was the drug of choice. Emirati officials also cite the increasing number of drug addicts that die from their habit (20 in 2000, including a homemaker) as a sign of the worsening drug problem.

Punishment for drug offenses in the UAE is severe; a 1995 law stipulated capital punishment as the penalty for drug trafficking. No executions, however, have ever been carried out. In 1999 the death sentence was imposed on a Canadian citizen for possession with intent to distribute narcotics, but a UAE court later commuted the sentence to life in prison. (Prisoners serving a life sentence in the UAE are typically paroled after 25 years.) The minimum sentence for individuals convicted of using drugs in the UAE is four years. The sentence is extended to seven years if a possession charge is added, as is often the case.

The most celebrated drug-related case in 2001 involved two British nationals who were given life terms for using, distributing, and in the case of one, importing illegal narcotics. In the same case, a British national was sentenced to ten years for possession, while a Lebanese national received a four-year jail term for drug use. In 1999, an Indian national was sentenced to ten years in jail for bringing unfrosted "khuskhus" (poppy seeds), which are said to contain opium, into the country.

Several large seizures during 2001 indicate that the UAE is a regional transshipment point for illegal drugs. Of greatest significance was the confiscation in November of nearly 14 tons of hashish destined for Canada, Australia, Yemen, Iran, and the Netherlands. An earlier seizure in Sharjah netted 1,102 kilograms of hashish. In both instances the hashish had originated in Afghanistan and transited Iran before arriving in the UAE for distribution elsewhere. The lack of large seizures of heroin in the UAE to date makes its role in this trade unclear.

The local press reports the street value of one kilogram of Pakistani hashish to be U.S. \$4,658 in Abu Dhabi and U.S. \$3,288 in Dubai. The price is said to be highest in Abu Dhabi and Dubai because the customer base in these two emirates tends to be more affluent.

In October 2001, the UAE Coast Guard was folded into the UAE Navy, under the Ministry of Defense. The degree to which the Navy is able to integrate the Coast Guard's mission into its own will determine the UAE's ability to effectively police the country's long borders against illegal narcotics smuggling.

**Corruption.** There is no evidence that corruption of public officials is a systemic problem, or that as a matter of government policy, the UAE encourages or facilitates the production or trafficking of illicit

narcotics or the laundering of proceeds from illegal drug transactions. In April 2001, the former head of Dubai Customs and Port Authority, along with five other Customs officials, was tried, convicted, and sentenced to 27 years in prison on charges of corruption and embezzlement. Four months later he was pardoned by the Dubai government and released. This incident involved an attempt at personal enrichment unrelated to narcotics smuggling.

**Agreements and Treaties.** The UAE is a party to the 1998 UN Drug Convention, the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

The UAE is a party to other multilateral or bilateral counternarcotics conventions, including agreements with Pakistan and India. The UAEG has also signed a number of memoranda of understanding on counternarcotics cooperation with other governments, including the United States and UK.

**Cultivation/Production.** There is no known illicit cultivation or illicit production in the UAE.

**Drug Flow/Transit.** Hashish, heroin, and opium shipments originate in Pakistan, Afghanistan, and India and are smuggled in cargo containers, via small vessels and powerboats, and/or sent overland via Oman. The UAE, and Dubai in particular, is a major regional transportation and shipping hub. High overall shipping volume means that UAE territory is vulnerable to exploitation by narcotics traffickers. UAE authorities also recognize that the number of human carriers of illicit narcotics transiting local airports is on the rise.

Recognizing the need for increased monitoring at their commercial shipping ports, airports, and borders, the UAEG is making efforts to tighten inspections of cargo containers as well as passengers transiting the UAE. Container throughput for Dubai was 2.8 million units in 1998 and an estimated 14 million people passed through the emirate's airport in 2000. Customs officials are randomly searching containers and following up leads of suspicious cargo. Customs officials and inspector in Abu Dhabi received specialized training on how to ferret out drugs in 2001 from U.S. experts. 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 UAE is a relatively affluent country. The UAEG has established an extensive treatment and rehabilitation program for its citizens. There are rehabilitation centers in Abu Dhabi, Ajman, and Sharjah, and there are two in Dubai. In accordance with a federal law, UAE nationals who are addicted can present themselves to the police or a rehabilitation center and be exempted from criminal prosecution. They undergo a two-year drug rehabilitation program, which includes family counseling/therapy. Those nationals who do not turn themselves into local authorities are referred to the courts for prosecution. When convicted of narcotics offenses, third-country nationals or "guest workers," who make up approximately 80 percent of the UAE's population, generally receive prison sentences and are deported upon completing their sentences.

A national drug demand reduction plan to increase public awareness of the dangers of drugs and to help drug victims will be fully operative by 2003. Ongoing efforts include public statements by senior UAE officials, including the former Chairman of the National Anti-Narcotics Committee who urged the UAEG to fight drug traffickers with the same intensity with which the United States is fighting terrorism. The government also encouraged directors of the country's telecommunications monopoly to print counternarcotics messages on bills mailed to all customers. The UAEG's demand reduction plan also focuses on programs to ensure that the unemployed and those released from prison are provided jobs. UAE citizens also receive incentives through the Marriage Fund to lead stable family-oriented lives, and are provided financial incentives to cooperate with police in detecting drug crimes. (The Interior Minister has an annual allocation of U.S. \$65,575 set aside for this purpose.) Public awareness campaigns are directed at young people. UAE officials believe that adherence to Muslim religious mores as well as the imposition of severe prison sentences for individuals convicted of drug offenses are an effective deterrent to narcotics abuse.

### IV. U.S. Policy Initiatives and Programs

**U.S. Policy Initiatives.** U.S. policy seeks continued and enhanced participation by the UAEG in programs dealing with narcotics trafficking, precursor chemicals diversion, border/export control, and money laundering. In 2001, the United States organized training initiatives related to money laundering, border/export control, and narcotics interdiction. Other initiatives include the FBI/Dubai police partnership in the Middle East Law Enforcement Training Center, which provides training to UAE as well as GCC law enforcement agencies. The Center's training schedule for 2002 includes segments on drug investigations and transnational crimes, both of which will aid the UAE in combating illegal drugs. Additional U.S.-sponsored training and exchange programs on export control, money laundering, and drug interdiction have been scheduled tentatively for 2002. Most USG costs for offering training in the UAE and other relatively wealthy oil exporting countries of the Persian Gulf are paid for on a reimbursable basis by the countries benefiting from the training.

**Bilateral Cooperation.** The UAEG cooperates with U.S. law enforcement on appropriate narcotics cases involving the two countries. UAE officials work closely with DEA personnel. An exchange of information in 2001 led to an arrest by Dubai police of an individual attempting to sell 400 grams of heroin.

**The Road Ahead.** The United States will continue to support the UAE government's efforts to devise and employ bilateral/multilateral strategies against illicit narcotics trafficking and money laundering. The United States will encourage the UAEG to focus enforcement efforts on dismantling major trafficking organizations and prosecuting their leaders, and to enact asset forfeiture and seizure legislation.

# Zambia

## I. Summary

Zambia is not a major drug producer or exporter, and it is not considered a major drug-transit country. The Zambia Drug Enforcement Commission (DEC) is responsible for counternarcotics enforcement in Zambia. The DEC works well with the Zambia Police Service (ZPS), as well as with U.S. and other foreign law enforcement authorities. DEC statistics report an approximately 56 percent success rate in prosecutions of suspected drug offenders in 2001. Zambian law enforcement officials are committed to drug enforcement efforts, but the program, like much of Zambia's law enforcement efforts, suffers from a lack of resources. Zambia is a party to the 1988 UN Drug Convention.

## II. Status of Country

Zambia is not considered a major source of manufactured illicit drugs, it is not a principal drug transit area, and it is not a supplier of precursor chemicals. The illegal cultivation of cannabis by subsistence farmers, seeking to supplement their meager earnings, is by far the most significant drug abuse-related problem. Cannabis seizures made up 90 percent of total illegal drug seizures in 2001. Cannabis is intercropped in large tracts of land with cash crops such as maize, cotton, and cassava to avoid detection. DEC officials believe that subsistence farmers, ignorant of the penalties and drawn by the monetary incentives, are often lured into drug cultivation by "syndicates" operating in Zambia and the southern African region.

By the DEC's account, most of the cannabis grown in southern and western regions of Zambia finds ready markets in Zimbabwe, Botswana, Namibia, and South Africa. A recent trend has been the importation from Malawi of a potent strain of cannabis known on the street as "Malawi Gold." Zambian traffickers (most often truck drivers), in concert with Malawian traffickers, smuggle the product into Zambia's larger cities, such as Lusaka, Kitwe, and Ndola, from where it is later smuggled into South Africa or Botswana. In a typical incident, four Zambians were arrested in a Lusaka hotel attempting to sell 16.5 kilograms of "Malawi Gold."

Cannabis is believed to be the most abused illegal drug in Zambia. The majority of offenders treated in drug rehabilitation centers are treated for cannabis dependence. Consumption of cannabis in Zambia is mostly confined to the urban young, although the rural villagers use cannabis to a lesser extent. While there are no reliable statistics concerning the use of other drugs, anecdotal evidence indicates increasing consumption of some imported drugs, such as heroin, cocaine, hashish, and amphetamines, mostly by foreigners resident in Zambia and by some wealthier Zambians.

## III. Country Actions Against Drugs in 2001

**Policy Initiatives.** A three-year drug control master plan launched in October 1998 finished up in October 2001. The objectives of the plan, including research on the extent of the drug problem in Zambia and reduction in domestic demand for drugs through public awareness of the dangers of drug abuse, were broadly achieved. The major policy initiative in 2001 was passage of the "Prohibition and Prevention Of Money Laundering Act No. 14."

**Law Enforcement Efforts.** Through the first ten months of 2001, Zambian drug enforcement officials seized in excess of 13 metric tons of cannabis. Zambian drug officers also seized minor quantities of several different amphetamine-type stimulants (ATS). The seizure of Mandrax (methaqualone) decreased in 2001, with only 15 grams of powder and one tablet seized, a significant reduction from 2000. While trafficking of Mandrax was characterized as "moderate in scope" in the 2000 INCSR, it appears that Zambia's interdiction efforts have successfully reduced the amount of Mandrax transiting the country.

Zambians formed the majority of individuals arrested for drug offenses, with 2,543 Zambians taken into custody. There were also significant numbers of foreign nationals, including 26 Tanzanians, 27 D.R. Congolese, 21 Angolans, 19 Somalis, and 12 South Africans.

**Corruption.** Zambia's anticorruption commission investigates cases of corruption within all government institutions, including the DEC. There are no indications that senior government officials are involved in drug-related offenses.

**Agreements and Treaties.** Zambia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. A 1931 U.S.-U.K. extradition treaty is applicable to Zambia. Zambia is one of the Southern African countries that will benefit from the UN-implemented, U.S.-supported land border crossing project.

#### **IV. U.S. Policy Initiatives and Programs**

The U.S. actively assists the DEC to procure drug enforcement-related equipment and to obtain training. In September 2001, two laboratory technicians from the DEC attended training in clandestine drug laboratory investigations, sponsored by the U.S. DEA. In 2001, a team of experts from U.S. Customs and the INS inspected border crossings as part of an effort to improve border control operations. Subject to the availability of funds, DEC agents will attend several courses at the International Law Enforcement Academy (ILEA) in Botswana in 2002.

# Zimbabwe

## I. Summary

Zimbabwe is not a major producer, supplier, or exporter of drugs or precursor chemicals. Cannabis remains the biggest drug problem in Zimbabwe, with the majority (80 percent) being imported from Malawi, Mozambique, and Zambia. The remainder is grown in Zimbabwe. More than 50 percent of the drug is re-exported to Botswana, South Africa, and Namibia. Ecstasy has emerged as the second most popular drug in Zimbabwe within the last year. Although Zimbabwe is a party to the 1988 UN Drug Convention and ratified the Southern African Development Community (SADC) Protocol, an existing unified government program of prevention and enforcement remains largely unfunded and inactive. Zimbabwe has neither requested, nor has it received U.S.-funded assistance in the past two years.

## II. Status of Country

Production, cultivation, and trafficking in illicit drugs in Zimbabwe is limited, as is the production of precursor chemicals. Although cannabis is cultivated in the rural areas on a small scale for local use, it remains the biggest drug problem in Zimbabwe, with the majority (80 percent) being imported from Malawi, Mozambique, and Zambia. More than 50 percent of the drug is re-exported to Botswana, South Africa, and Namibia. Hashish, cocaine, heroin, and LSD have also been noted in very limited quantities in larger urban areas such as Harare, Bulawayo, and Gweru. Unaffordable to the mainstream population, these drugs are generally used by affluent suburban youths. Ecstasy use has reportedly been on the rise, making it the second-most popular drug in Zimbabwe. The drug is predominately a product of the rave/nightclub party scene and is imported from the Netherlands, Britain, and South Africa. Due to its location along established routes, Zimbabwe has also been identified as a transshipment point for Mandrax, a drug produced in India and Pakistan for distribution in South Africa. Law enforcement authorities are not presently engaged in specific programs to combat drug use, production, or transshipment and view the counternarcotics effort as minor in comparison with other law enforcement challenges that they routinely face.

## III. Country Actions Against Drugs in 2001

Zimbabwe is a party to the 1988 UN Convention, as well as the SADC Protocol. Zimbabwe is also a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Zimbabwe has signed but not ratified the UN Convention against Transnational Organized Crime. While the five-year Zimbabwe Drug Control Master Plan was formulated in 2000, it has yet to be approved by the Government of Zimbabwe (GOZ). Drug seizures have declined in the past two years. Seizures are viewed as byproducts of law enforcement activities rather than objectives in an overall counternarcotics strategy. Nevertheless, offenders continue to be prosecuted in the courts, as they run afoul of law enforcement officers. Narcotics money laundering does not appear to be a problem, and there are no known indicators to demonstrate or suggest that government officials are engaged in or encourage illicit drug production or distribution. Zimbabwe recently hosted the first meeting of Southern African Heads of Drug Law Enforcement Services, consisting of representatives from Botswana, Mauritius, Swaziland, South Africa, Namibia, Zambia, Interpol, and the U.S. Embassy in Harare. Six recommendations were the result of an open forum where countries shared their country summaries, strategies, and vulnerabilities. Two underlying themes of these recommendations include a desire for increased cooperation among agencies within single governments and among agencies in different countries and an emphasis on money laundering and asset forfeiture as a tool to supplement other enforcement tools.



### **IV. U.S. Policy Initiatives and Programs**

The U.S. government neither conducted nor proposed any counternarcotics policy initiatives in Zimbabwe during the past two years. Zimbabwe's overall problems with illicit drugs are relatively small, certainly in comparison with many neighboring countries, but unfortunately it appears the GOZ's attention to its counternarcotics efforts continues to be sidelined by a more pressing, yet controversial, political agenda.



# CHEMICAL CONTROLS



# Introduction

Only marijuana, of all the major illicit drugs of abuse, is available as a natural, harvested product. All of the others such as cocaine, heroin, and amphetamine-type-stimulants must be manufactured. This process 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. Chemical control is a cost-effective strategy to prevent the manufacture of illicit drugs through the regulation of licit commerce.

There is widespread international commerce in many of the chemicals required for illicit drug manufacture. Many of them have extensive commercial applications and are available from numerous source countries. Therefore, an essential element of effective international chemical control is rapid multilateral exchange of information among competent national authorities on proposed transactions in regulated chemicals in order to identify and stop or seize shipments of chemicals likely to be diverted.

National control systems alone cannot prevent diversion. All countries having commerce in regulated chemicals—exporting, trading, transit, and importing—must participate. Participation must also include feedback from countries receiving information, particularly importing countries, on actions they have taken in response to the information. The United States continues to seek the establishment of multilateral mechanisms for this information exchange.

Chemical control is 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 manufacturers and traders to provide commercial information to the exporting country's authorities. These authorities must share at least a portion of this information 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.

Many governments consider chemical control a trade issue to be handled by trade ministries/agencies with a bias toward promoting, not regulating, trade. If these ministries do not allow sufficient scope for regulatory and law enforcement measures in support of chemical control, they may unwittingly undermine this effective counternarcotics strategy. Trade ministries tend to reinforce the reluctance of companies to share information with their governments that will in turn be shared with other governments for fear of its reaching competitors. This concern is unfounded. There is no evidence that states or firms are abusing the multilateral chemical information exchange now occurring to gain competitive advantage.

To participate in multilateral chemical control mechanisms, countries must establish national chemical control regimes and administrative structures to support them. To be effective, the national regimes must provide for the multilateral exchange of information necessary for their implementation, while respecting the legitimate commercial interests involved. A key element is recognition that chemical control is also a law enforcement strategy to be administered in cooperation with law enforcement agencies to curb criminal activities.

## *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 and international standards for parties to the Convention to control their chemical commerce to prevent diversion to illicit drug manufacture and to cooperate with one

another. The two tables of the Annex to the Convention list 22 chemicals as those most necessary for drug manufacture and, therefore, subject to control. Parties to the Convention accept the obligation to enact national laws and promulgate regulations to carry out its provisions.

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 provisions and 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, to highlight emerging chemical control concerns, and to promote mechanisms for information exchange.

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 U.S. has a chemical control agreement with the European Union, which was signed on May 28, 1997, and entered into force on July 1, 1997. It is particularly valuable in that it involves a 15-member state organization representing some of the world’s major chemical manufacturing and trading nations. Significantly, it also provides for the exchange of information on chemical transactions with third countries under certain circumstances.

### *Tactics Used to Obtain Chemicals*

The huge trade in chemicals, both domestic and international, offers multiple opportunities for their diversion from legitimate commerce. This is the principal method used by traffickers to obtain chemicals. In doing so, 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 investigate legitimate end-use adequately 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 verification make this possible.
- Chemicals are manufactured in or imported by a country, then are 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 determine the true nature of the chemicals, allow 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 require that controlled chemicals be exported only to countries where viable, countrywide regulatory systems are in place.

These tactics are masked by the use of front companies, false invoicing, multiple transshipments, 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; acids, alkaline materials, or oxidizing agents cannot be recycled. 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 laboratories. The chemicals used in the manufacture of synthetic drugs such as methamphetamine and ecstasy cannot be recycled.

A more recent development is the manufacturing by traffickers of the chemicals they need from unregulated raw materials. Enhanced controls on potassium permanganate, the key chemical for manufacturing cocaine, have created shortages, and laboratories for its manufacture have been discovered in Colombia.

### *2001 Chemical Diversion Control Trends and Initiatives*

“Club drugs” have emerged as a major problem in recent years. This is a general term for a number of illicit drugs, primarily synthetic, that are most commonly encountered at nightclubs and “raves.” The drugs include ecstasy, LSD, GHB, GBL, amphetamine, and methamphetamine. The drugs have gained in popularity in part due to the perception that they are not harmful, nor as addictive as mainstream drugs such as cocaine and heroin. This is a problem not only in the United States, but also in Europe and Asia. Given their widespread abuse, particularly by young people, there is an emerging international consensus to cooperate in controlling the chemicals required for their manufacture.

The problem is complicated by the changing nature of the drugs and the chemicals used in their manufacture. To escape controls traffickers create new drugs—“designer drugs”—with the same physical/psychological effects of regulated drugs. Traffickers can also use unregulated substitute chemicals in manufacturing designer drugs. As a result, in addition to controlling already regulated drugs and chemicals, systems have to be devised to identify and bring under control new drugs and the chemicals used in their manufacture.

The United States has legislation providing for emergency scheduling, which permits DEA to maintain one-year temporary controls on new substances upon the determination that they are an imminent risk to the public health while a fuller scientific study is undertaken. There are also legislative provisions for the prosecution of trafficking in new synthetic drugs intended for human consumption if their chemical structure or their physical/psychological effect is like that of a controlled substance, or if the new substance is purported to produce effects like a controlled substance.

As with other precursor chemicals, national systems alone cannot adequately control precursors used for synthetic drugs. Operation Mountain Express III, a multi-agency U.S. and Canadian operation targeting pseudoephedrine smuggling from Canada dramatically illustrated this. Pseudoephedrine is a key chemical used in the manufacture of methamphetamine. As a result of successful U.S. domestic initiatives controlling the chemical, traffickers have turned elsewhere, including to Canada, to meet their needs. On January 10, 2002, DEA and other participating agencies announced the arrest of over 100 individuals involved in smuggling the chemical from Canada. DEA Administrator Asa Hutchinson noted, “In the last two years, the use of Canadian pseudoephedrine has become the norm rather than the exception in West

Coast-based Mexican methamphetamine laboratories.” Pseudoephedrine is easily obtained in Canada because the sale of precursor chemicals for domestic use is not restricted. Aware of the problem, Canada is developing chemical control regulations and plans to implement them by the end of 2002.

The international community is mobilizing now to develop multilateral mechanisms to control the key precursor chemicals used in manufacturing synthetic drugs. The models are Operation Purple, the successful international initiative directed against potassium permanganate, a key cocaine chemical, and Operation Topaz, directed at acetic anhydride, a key heroin chemical. The United States and the European Union co-sponsored a resolution at the March 2001 CND urging multilateral cooperation in controlling synthetic drug chemicals. The United States will host a conference in June 2002, to be chaired by the International Narcotics Control Board, for the most important concerned countries to agree on a multilateral strategy to control synthetic drug precursor chemicals more effectively. Experts' meetings are being held in advance to develop proposals to present to the June meeting. The United States and the European Union have agreed to cooperate at the March 2002 CND meeting in promoting the June conference.

Controlling synthetic drug chemicals presents a complex problem. While operations Purple and Topaz are tracking operations directed at a single chemical, there are more chemicals involved in manufacturing synthetic drugs, in part because of the variety of synthetic drugs available. The initial focus of the synthetic drug initiative will be on establishing tighter controls on the chemicals required by some of the most widely abused synthetics, such as ecstasy, amphetamine, and methamphetamine.

The attention to key cocaine and heroin chemicals continued in 2001. The March 2001 CND meeting approved the recommendation of the International Narcotics Control Board to move potassium permanganate and acetic anhydride from Table II of the 1988 UN Drug Convention to the more restrictive Table I. The principal change is that parties to the Convention now must provide, as a treaty obligation, pre-export notification for all shipments of these chemicals to importing countries when requested by the importing country.

Participation in Operation Purple grew to 30 countries in 2001. However, there are still 63 non-participating countries receiving shipments of potassium permanganate, of which 15 have received more than 100,000 kilograms of the chemical. Since its inception in April 1999 through September 2001, Operation Purple monitored 1,374 potassium permanganate shipments totaling 38,010,480 kilograms. A total of 3,776,471 kilograms were stopped or seized. Indicative of the success of the operation is the discovery of ten potassium permanganate laboratories in Colombia as traffickers seek other sources for the chemical previously diverted from commercial channels. The International Narcotics Control Board also notes in its annual report for the year 2001 that chemical analysis of samples of cocaine seized throughout the world show that the use of potassium permanganate as an oxidizing agent in the cocaine purification process has remained at an all-time low for the second consecutive year.

Operation Topaz, which began in March 2001, now has 32 participating countries. Through September 2001, 1,458 shipments of acetic anhydride totaling 155,330,000 kilograms were monitored and 213,000 kilograms stopped or seized. The higher figures for Operation Topaz indicate the higher volume of trade in acetic anhydride and the greater difficulty in monitoring it.

There are indications that Operation Topaz and moving acetic anhydride to Table I of the 1988 UN Convention are having an impact. Many participants at a November 2001 meeting of the United Nations International Drug Control Program Subcommittee on Illicit Drugs Trafficking and Related Matters in the Near and Middle East reported significant success in intercepting acetic anhydride transiting their countries enroute to heroin laboratories in Afghanistan. One result is the increasing appearance of brown heroin in the region, indicating the absence of acetic anhydride in the final stage of the purification process.



### *The Road Ahead*

The international consensus that more needs to be done to control synthetic drugs is an opportunity to develop specific multilateral mechanisms for the control of their precursor chemicals. The March 2002 CND meeting and the June 2002 Washington conference on synthetic drug chemicals will be used for that purpose. However, these efforts should not be made at the expense of operations Purple and Topaz. Therefore, the U.S. will continue its active support for and participation in these operations and urge non-participating countries to join.

The Afghan Interim Authority on January 16, 2002 issued a decree banning the cultivation, processing, and trafficking of opiates. Multilateral cooperation in controlling chemical commerce with Afghanistan to prevent the importation and diversion of chemicals required for heroin manufacture will be required to assist the Interim Authority implement this decree. Countries exporting these chemicals to Afghanistan and neighboring countries will need to be particularly vigilant to ensure that legitimate end-uses exist for chemical orders they receive from these areas.

The international community needs to continue improving implementation of the general international system for chemical control based on the 1988 UN Drug Convention, as well as the operations targeting specific chemicals. An important element of this effort will be to press for feedback when exporting and importing countries exchange information. Pre-export notifications lose value unless they are acted upon and the exporting country is informed of the results. One aspect of improving feedback is greater recognition that chemical control is a law enforcement activity for fighting criminal drug trafficking, not only a regulatory activity to control chemicals. Therefore, there is greater urgency required in processing and acting upon information.

The focus on specific chemicals and regions does not lessen the importance of controlling the other chemicals included in the 1988 UN Drug Convention, or the commerce in these chemicals with other geographic regions. As controls tighten on traditional sources, traffickers must be prevented from shifting to other chemicals or regions where controls are looser to obtain chemicals.

## Major Chemical Source Countries

The countries discussed in this section are those with large chemical manufacturing or trading industries that have significant trade with drug-producing regions, and those countries with significant chemical commerce susceptible to diversion domestically and smuggling into neighboring drug-producing countries. Designation as a major chemical source country does not indicate that a country lacks adequate chemical control legislation and the ability to enforce it. Rather, it recognizes that the volume of chemical trade with drug-producing regions, or countries in proximity to them, makes these countries the sources of the greatest quantities of chemicals liable to diversion. The United States, with its large chemical industry and extensive trade with drug-producing regions, is included in the list.

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 UN Drug Convention is the international standard for national chemical control regimes and for international cooperation in their implementation. The tables in 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 use in illicit drug manufacture.

### *Western Hemisphere*

#### **Argentina**

Argentina has a large well-developed chemical industry that exports to customers throughout Latin America. The industry produces many of the solvents, acids, and oxidizing chemicals required for manufacturing cocaine. 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 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).

Due to resource constraints and deficiencies in the relevant decrees, there have been very few investigations into suspicious chemical transfers. This may be attributable in part to the fact that Argentine law does not recognize the illegal possession of precursor chemicals as a serious criminal offense. Thus, Argentine law enforcement officials seem to place little emphasis on the arrest and prosecution of individuals found in possession of precursor chemicals. Argentine authorities did, however, seize 350,465 liters of these chemicals in 2001, a significant increase from the 2,702 liters seized in 2000.

The Argentine Government has introduced new and more secure import and export certificates and formed an eight-person chemical investigation unit. It also continues to propose to its neighbors that they work together to monitor chemical commerce in the region.

DEA continues to work with Argentine authorities to identify solutions to the problems of controlling international and domestic diversion of Argentine chemicals. Presently, DEA is working with Argentine authorities to establish chemical enforcement groups and, through coordination with DEA offices in Bolivia and Paraguay, plans to assist in targeting regional chemical traffickers. Argentine authorities exchange chemical transaction records with U.S. law enforcement officials.

## Brazil

Brazil has South America's largest chemical industry. It also imports significant quantities of chemicals to meet its industrial needs. Brazil is a party to the 1988 UN Drug Convention.

A new chemical control law was approved and signed by Brazilian President Cardoso on December 27, 2001. The new law is intended to amplify and fortify current Brazilian chemical-control statutes by increasing the number of controlled chemicals. The initial proposal is for the Brazilian Federal Police (DFP) to control 35 chemicals, but this may change since the new law gives the authorities the flexibility to add as many chemicals to the controlled list as they find appropriate. The new law also makes it easier to investigate and prosecute the diversion of precursor chemicals.

The new law became effective January 1, 2002, and January 31, 2002 was the date for compliance. The Brazilian authorities, however, will provide the chemical industry adequate time to comply with the new regulations that implement the law. These regulations require currently registered chemical handlers to re-register. The re-registration will be approved after company facilities have been inspected by the DFP. Companies will also be required to submit audits and reports to the authorities on a monthly basis.

In anticipation of the changes to come, DEA is assisting in the development of a special unit of DFP agents dedicated exclusively to the identification and prevention of chemical diversion to illicit drug manufacture. However, an overall shortage of agents and resources, as well as other law enforcement priorities, hinders the development and expansion of this unit.

Brazil has established procedures under which records of transactions in precursor and essential chemicals can be made available to other countries' law enforcement authorities. An agreement between Brazil and the United States on mutual cooperation for reducing demand, preventing illicit use, and combating illicit production and trafficking of drugs was signed in 1986 and entered into force in 1991. The agreement provides the formal basis for bilateral cooperation in chemical control, including information sharing with U.S. authorities.

## Mexico

Mexico has major chemical manufacturing and trading industries that produce, import or export most of the chemicals necessary for illicit drug manufacture. Mexico is an importer and transit country for potassium permanganate, an essential chemical in the manufacture of cocaine. It is an important entry and transit point for ephedrine, pseudoephedrine and phenylpropanolamine, which are used in the illicit manufacture of amphetamine-type-stimulants. During 2001, the government prohibited the use of phenylpropanolamine in the manufacture of pharmaceutical products; therefore all import requests for that chemical are being denied by the Secretariat of Health.

Comprehensive chemical control legislation adopted in 1997 placed 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.

Nevertheless, enforcement of these laws and regulations is weak. Chemical control and enforcement responsibilities are splintered among eight government entities, leading to information gaps, duplication of effort, and lack of accountability. The continued lack of field

inspections and investigations makes verification and prosecution of violators difficult. For example, there has apparently been no investigation into the theft of 1.5 tons of pseudoephedrine from a truck leaving Mexico City International Airport.

The bilateral chemical control working group the United States and Mexico established in 1996 to act as a formal mechanism for cooperation and information exchange has not been able to sustain its early progress. The group drafted a memorandum of understanding (MOU) to formalize elements of bilateral cooperation in 2000, but, although initialed in August 2001, it has not been signed. Complicating matters, authority within the Mexican government over enforcement matters addressed in the MOU has been transferred to the Center for Drug Planning, an intelligence analysis agency, which presumably would have to join the MOU. Additionally, due to the division of responsibilities within the government, the Secretariat of Health must be made a signatory for the MOU to be effective. Despite the dormancy of the MOU, cooperation and information exchange on chemical control between U.S. and Mexican law enforcement agencies continues.

Mexico is a participant in Operation Purple, the multilateral initiative that monitors shipments of potassium permanganate. Nonetheless, more than half the potassium permanganate seized in Colombia since the operation's inception came via Mexico, while no legitimate Mexican sources have reported missing the over 80 tons of the chemical involved.

The Mexican government is aware of its deficiencies in chemical control. One positive step has been the recent creation of the Health Quality Commission, which has been charged with creating and implementing compliance standards for chemical control. The commission intends to retain compliance fees to use for enhancing its operations. Mexico continues to make efforts through highway and airport checkpoints to interdict illicit chemical shipments. It also participates in U.S. training exercises to dismantle clandestine laboratories.

### **The United States**

The United States manufactures and/or trades in all 22 chemicals listed in the Annex to the 1988 UN Drug Convention. It is a party to the Convention and has laws and regulations meeting its chemical control provisions.

The basic United States chemical control law is the Chemical Diversion and Trafficking Act of 1988. This law and three subsequent chemical control amendments were designed as amendments to the U.S. controlled substances laws rather than as stand-alone legislation and are administered by DEA. In addition to registration and record keeping requirements, the legislation requires traders to file an import/export declaration at least 15 days prior to shipment of regulated chemicals. DEA uses the 15-day period to determine if the consignee has a legitimate need for the chemical. Chemical diversion investigators are assigned to DEA offices in ten key countries and at INTERPOL to assist in determining legitimate end-use. In other countries, DEA agents perform this task. The diversion investigators and agents work closely with host country officials in this process. If legitimate end-use cannot be determined, the legislation gives DEA the authority to stop shipments.

The legislation also requires chemical traders to report suspicious transactions to DEA such as those involving extraordinary quantities or unusual methods of payments. Close cooperation has developed between the U.S. chemical industry and DEA in implementing the legislation.

The United States has been active in initiating and supporting cooperative multilateral chemical control initiatives. The United States chaired the G-7 Chemical Action Task Force, whose 1990 report established many of the standards and procedures now applied to international chemical control. The Multilateral Chemical Reporting Initiative, which provides the information exchange procedures for subsequent chemical tracking operations, was a United States initiative. DEA

organized the two international conferences in 1999 that resulted in Operation Purple, the potassium permanganate tracking operation. The United States participated in and supported the meeting in 2000 organized by the International Narcotics Control Board to plan Operation Topaz, the acetic anhydride tracking operation.

The United States co-sponsored with the European Union a resolution at the March 2001 CND meeting calling for greater attention to and multilateral cooperation in controlling the chemicals required for manufacturing synthetic drugs. In pursuit of this objective, the United States will host a conference in June 2002, chaired by the International Narcotics Control Board, to agree on multilateral mechanisms to better control synthetic drug chemicals.

## *Asia*

### **China**

China has a major chemical industry. It is a large producer of potassium permanganate, a key cocaine essential chemical, and a major producer of acetic anhydride and ephedrine, two other important precursor chemicals. The country is a party to the 1988 UN Drug Convention and has regulations for record keeping and import/export controls on the 22 chemicals listed in Tables I and II of the Convention. Several provinces, including Yunnan (which shares a border with Burma), have more stringent controls than called for in the Convention. China also requests “letters of no objection” from importing countries prior to authorizing exports of methamphetamine precursor chemicals.

Internally, the government has issued regulations tightening controls on transportation licenses for ephedrine, a methamphetamine precursor. One result has been to drive up the price on the black market for the chemical.

China actively cooperates with multilateral initiatives to control chemicals in international commerce, and it has been a strong partner with the United States and other countries in implementing a system of notification of dual-use chemicals. It reports the highest number and largest quantities of potassium permanganate shipments to the Operation Purple control system. It is participating in Operation Topaz, the acetic anhydride tracking initiative that became operational in March 2001. China and the United States also cooperate in Operation Icebreaker, a regional initiative to combat the diversion of precursor chemicals for the production of crystal methamphetamine.

China cooperates closely with the U.S. on chemical control issues. The two countries have in place a strong pre-export notification system for shipments of ephedrine and pseudoephedrine. Chinese officials routinely take part in chemical control courses sponsored by the Department of State and taught by DEA. Information is exchanged through mechanisms such as operations Purple and Topaz and in the course of normal counternarcotics cooperation.

### **India**

India’s location between the drug producing regions of Afghanistan and Burma and its large chemical industry make it a natural target for traffickers seeking chemicals. India is a party to the 1988 UN Drug Convention, but it does not have laws and regulations providing for controls on all the chemicals listed in the Convention.

There are controls on the chemicals most likely to be diverted: acetic anhydride for heroin manufacture in Afghanistan and Burma and ephedrine and pseudoephedrine for amphetamine-type-stimulants in Burma. No objection certificates from the Central Bureau of Narcotics are

required to export these and six other precursors. Imports of acetic anhydride and three other precursors also require no objection certificates.

Indian authorities cooperate closely with DEA in controlling chemicals, sharing information and actively participating in multilateral chemical control initiatives such as Operations Purple and Topaz. India continues to notify DEA of any seizures of Indian controlled chemicals, and frequently provides samples of heroin seizures for analysis as part of DEA's Heroin Signature Program. India co-chairs the steering committee for Operation Topaz.

### *Europe*

Chemical diversion control within the European Union (EU) is regulated by two EU regulations binding on all member states. The first, issued in 1990, meets the chemical control provisions of the 1988 UN Drug Convention. The second, 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 regulations implementing the EU regulations.

An agreement between the United States and the European Community on precursor and chemical substances, which was signed on May 28, 1977, and entered into force on July 1, 1997, is the formal basis for cooperation in chemical control between the United States and the EC, acting on behalf of its member states. The agreement establishes a Joint Follow-up to meet normally on an annual basis. Under the agreement, the Joint Follow-up Group is required to monitor the administration of the agreement and ensure its proper implementation. The annual meeting has been particularly useful in coordinating national or joint initiatives such as resolutions at the annual UN CND.

Bilateral chemical control cooperation is also good between the United States and EU member states, and many participate in and actively support voluntary initiatives such as the Multilateral Chemical Reporting Initiative, Operation Purple and the new Operation Topaz.

Germany and the Netherlands, with large chemical manufacturing or trading sectors and significant trade with drug-producing areas, are considered the major chemical source countries in Europe. 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 these countries.

### **Germany**

Germany's large chemical industry manufactures and trades in most of the precursor and essential chemicals used in illicit drug manufacture, making it a target for traffickers seeking chemicals. Germany is a party to the 1988 UN Drug Convention, and its chemical industry complies with government regulations that became effective in 1993, which are in accord with the EU regulations and meet the Convention's requirements.

Germany maintains an effective and well-respected chemical control program, which monitors the country's chemical industry, as well as chemical imports and exports. Cooperation between chemical control officials and the chemical industry is a key element in Germany's chemical control strategy. The Federal Police in cooperation with German Customs have a very active Joint

Precursor Chemical Unit based in Wiesbaden that solely handles chemical diversion investigations.

Germany is a leader in international cooperation in chemical control. It developed and promoted the concept that led to Operation Purple (the potassium permanganate tracking operation) and co-chairs its steering committee. Germany also was one of the leaders in the organization of Operation Topaz, the acetic anhydride tracking operation, and actively participates in its operation.

German chemical control officials and DEA counterparts maintain a close working relationship. A DEA diversion investigator in DEA's Frankfurt Resident Office spends at least one day per week with the Joint Precursor Chemical Unit working on chemical issues of concern to both countries. This arrangement allows for the real-time exchange of information.

### **The Netherlands**

The Netherlands is a major chemical trading country with some 2,400 companies involved. It has large storage facilities to handle chemicals, and Rotterdam is the world's busiest port. The Netherlands is also the world's largest producer of the synthetic drug ecstasy, indicating that there is domestic diversion and/or smuggling from abroad to provide the required chemicals.

The Netherlands is a party to the 1988 UN Drug Convention and has legislation meeting the chemical control requirements of the Convention and EU regulations. Violations of the chemical control laws can lead to prison sentences (maximum of six years), fines (up to \$50,000), or asset seizures. The Netherlands supports and participates in multilateral chemical control initiatives such as operations Purple and Topaz. A May 2001 government offensive against synthetic drugs provided for intensified controls on chemical precursors and additional funding for the Economic Control Service, which is to have a central role.

The government has concluded that most of the chemicals required for ecstasy manufacture in the Netherlands come from China. However, because of the human rights situation in China, Dutch policy does not permit the exchange of criminal information with Chinese authorities. The government, therefore, is seeking to achieve a common European Community position allowing for the exchange of administrative information.

The Dutch continue to work closely with the United States on precursor controls and investigations. This cooperation includes formal and informal arrangements for information exchange. United States and Dutch authorities cooperate closely in multilateral operational initiatives and in international meetings such as the CND.

## **Major Heroin and Cocaine Manufacturing Countries**

The manufacture of heroin and cocaine 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 their initiatives to control these chemicals.

### *Asia*

#### **Afghanistan**

Afghanistan had been the world's largest manufacturer of heroin until the Taliban in July 2000 issued an edict banning opium poppy cultivation in areas it controlled. The ban was reportedly largely observed in Taliban-controlled areas, but continued poppy cultivation in non-Taliban areas and opium stockpiles in Taliban areas allowed heroin manufacture to continue. The chemicals required for this manufacture must come from outside Afghanistan. Although Afghanistan is a party to the 1988 UN Drug Convention, it has no viable chemical control system.

Europe, the Central Asian states and India have been 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.

On January 16, 2002, the Afghan Interim Authority issued a decree banning cultivation, processing, and trafficking of opiates. Future chemical requirements and sources will depend on the success of that decree and the authorities' ability to regulate chemical commerce and prevent smuggling. This will require the cooperation of chemical source and neighboring countries.

#### **Burma**

In 2001, Burma was the world's primary heroin producer. It was also an important manufacturer of amphetamine-type-stimulants in response to growing demand, primarily in Southeast Asia. Burma is a party to the 1988 UN Drug Convention, but it does not have a viable system in place to satisfy its chemical control provisions. The bulk of the key chemicals required for illicit drug manufacture, most importantly acetic anhydride for heroin and ephedrine for amphetamine-type-stimulants, are smuggled across porous borders from China, India, and Thailand where they were diverted from domestic commerce.

### *Latin America*

#### **Bolivia**

Bolivia is not a major producer of precursor chemicals. Most chemicals required for illicit drug productions are smuggled from neighboring countries.

Bolivia is a party to the 1988 UN Drug Convention, and has the legal framework for implementing its chemical control provisions. Over the past four years, the government has developed an effective chemical interdiction program, making chemicals for producing illicit



drugs hard to obtain and expensive. Bolivian traffickers have been forced to alter the cocaine production process to reduce or eliminate the need for some chemicals and are using inferior substitute and recycled chemicals. However, there is a demand for Bolivian cocaine base and Bolivian processors have adapted to obtain the chemicals required to maintain a sufficient level of quality.

Bolivia participates in voluntary multilateral mechanisms such as the Multilateral Chemical Reporting Initiative and Operation Purple.

### Colombia

Colombia is the world's largest producer of cocaine and an important producer of heroin. This requires chemicals, most of which are imported into the country with valid import licenses and subsequently diverted. Lesser amounts are smuggled in from neighboring Brazil, Ecuador, and Venezuela.

Colombia has chemical control laws meeting or exceeding the requirements of the 1988 UN Drug Convention to which it is a party. A major problem in their implementation continues to be the system for issuing import permits. These permits are not reliable proof that the legitimate end-use for the chemicals has been verified before they are issued. There have been numerous cases of diversion in which the Colombian importer had a valid import permit, and the diversion was accomplished after the legal importation. The permits are also issued for lengthy periods of time, rather than on a shipment-by-shipment basis. Before shipments may proceed, DEA requires documentation identifying the ultimate consignee and the end-use for all U.S. exports, and transshipments through the U.S., to Colombia of potassium permanganate and the solvents necessary for cocaine production.

Colombia participates in operations Purple and Topaz, the multilateral operations tracking potassium permanganate and acetic anhydride shipments. Ten clandestine labs for potassium permanganate production have been discovered in Colombia in 2001, indicating traffickers are being forced to find new sources for chemicals receiving special scrutiny.

### Peru

Peru manufactures some of the chemicals required for cocaine processing and imports the remainder. Many of them are imported legally and diverted to illicit drug manufacture. Peru is a party to the 1988 UN Drug Convention and has laws meeting its chemical control provisions. Legislation passed in 1999 strengthened the ability of the chemical control unit of the Peruvian National Police, DICIQ, to regulate chemical companies. Additional legislation is required to impose criminal penalties for trafficking in controlled chemicals. While draft legislation has been submitted to the government for review, the authorities have not yet submitted that legislation to congress.

The DICIQ actively uses its existing legislative authorities. It conducted over 1,200 regulatory and criminal investigations in 2001, making 59 arrests and closing 70 chemical companies. It seized 108 metric tons of controlled precursor chemicals in 2001.

Peru participates in Operation Purple, the multilateral potassium permanganate tracking operation.



**MONEY LAUNDERING  
AND  
FINANCIAL CRIMES**



## Introduction

The terrorist attacks of September 11 vividly illuminated the importance of anti-money laundering laws and controls. The attacks fostered an even greater recognition of the importance of anti-money laundering cooperation around the world. This recognition galvanized international cooperation and led to significant modifications to anti-money laundering laws. The framework of laws and regulations enacted during the last decade to address money laundering paid prompt dividends in the world community's ability to trace the funds of those who finance international terrorism. The developments that have taken place since September 11 will further enhance global efforts against terrorist financing and the full range of money laundering challenges.

2001 was a year of domestic and international advances in the fight against money laundering. The terrorist attacks of September 11 added urgency and intensity to a robust process already underway. In 2001, the United States continued its vigorous inter-agency international anti-money laundering training program, totaling more than \$3.5 million, to improve worldwide efforts to combat money laundering and financial crime. Other governments and international organizations also strengthened anti-money laundering programs in 2001. The European Union broadened its anti-money laundering directive and imposed anti-money laundering obligations on "gatekeepers"—professionals such as lawyers and accountants who help place dirty money into the financial system. Regional anti-money laundering bodies in Europe, Asia and the Caribbean continued working effectively, and nascent anti-money laundering regional organizations in South America and Africa became operational.

A major money laundering focus of the year was the work of the Financial Action Task Force (FATF), the world's preeminent multilateral anti-money laundering body, which continued its non-cooperative countries and territories exercise. By year's end, all fifteen jurisdictions on the original list had passed anti-money laundering legislation and four jurisdictions were removed from the list, while eight additional jurisdictions were identified as being non-cooperative.

Thanks largely to the anti-money laundering experience and expertise accumulated by FATF over the past dozen years, many jurisdictions were well-positioned to react quickly to the threat of terrorist financing. FATF moved quickly after September 11 to convene an extraordinary Plenary on the Financing of Terrorism. At this October Plenary in Washington, the FATF decided to expand its mission beyond money laundering, and to focus its energy and expertise on the worldwide effort to combat terrorist financing. The FATF adopted eight special recommendations regarding terrorist financing and prepared an extensive questionnaire that requested members to describe what legislation they have in place, or intend to pass, to thwart terrorist financing. FATF agreed to distribute the questionnaire to all countries worldwide and analyze their responses in 2002.

Anti-money laundering measures played a critical role in efforts by law enforcement officials immediately after the September 11 attacks to help identify the perpetrators and determine who organized and financed them. The FBI, recognizing the important role of financial records, established an interagency review group to focus on the financial aspects of the terrorist network. The regulatory and investigative systems established over the past ten years were key to unraveling this network. As the terrorists were identified, various records, including credit card transactions, provided immediate information in retracing the terrorists' movements prior to the attacks, as well as the links between them. Banks in the United States worked with law enforcement to provide swift access to information about bank accounts that were linked to the credit card accounts.

Simultaneous with the establishment of the FBI Financial Review Group and a Treasury task force, the Department of State convened an interagency task force to determine which countries' financial systems were most heavily involved with funding these terrorists. Diplomatic outreach to those countries ensued. Teams comprised of U.S. Government technical experts were formed to assess the capabilities and

technical assistance needs of those countries that exhibited the political will to block terrorist financing and to develop viable anti-money laundering regimes.

The September 11 attacks led the world's international organizations to take prompt action against terrorist financing. On September 28, 2001, the United Nations Security Council (UNSC) adopted Resolution 1373 which reaffirmed earlier UN counterterrorism resolutions 1269 and 1368 and requires states to take prescribed actions to combat terrorism and the financing of terrorism.

The Egmont Group of Financial Intelligence Units (FIUs) provides a network for sending out leads and requests for information to FIUs around the world. Cooperation among the Egmont Group's 58 members and their prompt responses to these requests were unprecedented.

The terrorist attacks gave strong impetus to many countries to amend and strengthen their money laundering laws. In the United States, Congress passed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2001 on October 26, 2001. This landmark piece of legislation made major changes to the U.S. anti-money laundering regime. The broad new authorities provided in the USA PATRIOT Act will have significant influence on the relationships between U.S. financial institutions and their individual and institutional customers.

While the investigations of the financial links underlying the September 11 attacks demonstrate the value of measures that have been taken to identify, prevent and attack money laundering, they also reveal shortcomings. For example, after years of discussion, far too many countries still do not require identifying information about originators of international funds transfers. While most developed countries of the world now require banks to file suspicious activity reports, many still do not require non-bank financial institutions to do so. Some countries have yet to criminalize money laundering beyond drug-related offenses and many more do not have laws that address terrorist financing. September 11 demonstrated the need to do both. And many new initiatives that will be featured in anti-money laundering efforts in 2002 are now underway to try to overcome all of these deficiencies.

## **Why We Must Combat Money Laundering**

Money laundering is organized crime's way of trying to disprove the adage that "crime doesn't pay." It is an attempt to assure drug dealers, illegal arms dealers, corrupt public officials and other criminals that they can hide their profits and to provide them the fuel to operate and expand their criminal enterprises. Fighting money launderers and strengthening anti-money laundering regimes globally will reduce financial crime by depriving criminals of the means to commit other serious crimes. To a lesser but real extent, strengthening anti-money laundering regimes, particularly in the areas of identifying the originators of international wire transfers, will impact terrorist financing as well. At a minimum, strong anti-money laundering measures help to create a body of evidence that exposes criminal behavior and help law enforcement identify perpetrators and build cases against them that lead to their arrests and convictions.

As the tragic events of September 11 graphically demonstrated, crime has become global, 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, in addition to facilitating legitimate commerce, permit criminals to transfer millions of dollars instantly, using personal computers and satellite dishes. Only his or her creativity limits the criminal's choice of money laundering vehicles. 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. In so doing, criminals manipulate financial systems throughout the world.

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 seek to use the

funds. These transactions typically fall into three stages: (1) Placement, the process of placing, through deposits, wire transfers, or other means, unlawful proceeds into financial institutions; (2) Layering, the process of separating the proceeds of criminal activity from their origin through the use of layers of complex financial transactions; and (3) Integration, the process of using an apparently legitimate transaction to disguise the illicit proceeds. Through this process the criminal tries to transform the monetary proceeds derived from illicit activities into funds with an apparently legal source.

The United States and other nations are also victims of tax evasion schemes that use various financial centers around the world and their bank secrecy laws to hide money from tax authorities, 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 allow them to keep the money they have deposited from the knowledge of tax authorities.

Unchecked, money laundering can erode the integrity of a nation’s financial institutions. Due to the high integration of capital markets, money laundering adversely affects currencies and interest rates as launderers reinvest funds where their schemes are less likely to be detected, rather than where rates of return are higher. 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. Ultimately, laundered money flows into global financial systems where it can work to undermine national economies and currencies.

There is now worldwide recognition that we must deal firmly and effectively with increasingly elusive, well-financed and technologically adept criminals and terrorists who are determined to use every means available to subvert the financial systems that are the cornerstone of legitimate international commerce. The continued abuse of some offshore financial centers, the proliferation of on-line Internet banking and the widespread use of underground banks and money-changers highlight the importance of using new technologies and strong strategies to combat money laundering schemes and terrorist financing schemes.

## **International Terrorism Financing**

Terrorist groups differ from other criminal networks in the motive behind their crimes. While drug traffickers and organized crime groups primarily seek monetary gain, terrorist groups usually seek non-financial goals, such as publicity and political influence. Terrorism is a means to these ends. Terrorist financing also differs from money laundering in other respects. Ordinarily, criminal activity produces the funds and other proceeds that money launderers disguise so that the funds can be used for legitimate or criminal purposes. Funds that support terrorist activity are generated primarily through fundraising—often through legal non-profit entities, although terrorist groups often obtain some funds from criminal activities as well. Because terrorist activity requires very little money (the attacks on the World Trade Center and the Pentagon are estimated to have cost a little more than half a million dollars), the amounts of money that individual terrorist cells or their members seek to disguise is substantially less compared to that laundered by organized crime and drug kingpins. And it is the latter for which anti-money laundering tools were initially created. For example, the U.S. reporting requirement of cash transactions above \$10,000 may not be useful in detecting terrorist financing. This may require modification of existing laws and regulations. The investigation of terrorist financing is requiring law enforcement and regulatory officials to use existing anti-money laundering laws in altogether new ways. And it will require stronger international anti-money laundering enforcement regimes.

## *Small Sums With Big Effects*

While they do not seek financial gain as a sole end, international terrorist groups need money to attract adherents and to support their activities. Some terrorist organizations also need funds for media campaigns, to buy political influence, and to undertake social projects aimed at maintaining membership and attracting sympathetic supporters. Often, terrorists also rely in part on funds gained from traditional crime such as robbery, kidnapping for ransom, drug trafficking, extortion, document forgery, currency and merchandise counterfeiting, and smuggling. Terrorists can then divert some of the proceeds of these criminal activities to their terrorist efforts.

Terrorists typically derive only relatively small sums from the proceeds of traditional illegal activities. A substantial portion of the terrorists' funding comes from contributors, some of whom know the intended purpose of their contribution and some of whom do not. In this key respect, terrorism financing contrasts with the financing of a drug trafficking network, which obtains virtually all of its funding from illegal activities.

## *Origins of Financial Support*

Terrorist groups commingle illicit revenues with legitimate funds drawn from profits from commercial enterprises and donations from witting and unwitting sympathizers. They tap a range of sources for their financial support including:

- **Otherwise Legitimate Commercial Enterprises.** Terrorist groups earn profits from businesses they own. They also secure donations from sympathetic entrepreneurs.
- **Social and Religious Organizations.** Since the early 1990s, terrorist groups have relied increasingly on donations from social and religious organizations for financial support.
- **State Sponsors.** Several rogue nations—Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Syria—have provided material assistance, financial support or other resources to terrorists.

## *Moving Terrorist Money*

Tracking terrorist financial transactions is more difficult than following the money trails of mainstream criminal groups. While many organized crime groups are adept at concealing their wealth and cash flows for long periods of time, their involvement in the physical trade of illicit drugs, arms, and other commodities often exposes the revenues and expenditures connected to these illegal dealings. In contrast, terrorist actions generally are comparatively inexpensive and their financing is often overshadowed by the larger financial resources allocated for the group's political and social activities, making it more difficult to uncover the illicit nexus.

Terrorist groups use a variety of means to move their funds, including:

- **Currency Transport.** Cash couriered by operatives is difficult to track because there is no paper trail.
- **Traditional Financial Institutions.** The international nature of most foreign terrorist groups forces them to rely on banks and other financial institutions.
- **Islamic Banks.** Banks that operate in line with Islamic law, which prohibits the payment of interest and certain other activities, have proliferated throughout Africa, Asia and the Middle East since the mid-1970s. In most instances, these banks simply are



not required to adhere to a wide range of regulations normally imposed on commercial banks. Islamic banks are often not subject to any regulatory and supervisory scrutiny by bank regulators, and thus, do not undergo periodic bank examinations or inspections. While these banks may voluntarily comply with banking regulations and in particular, anti-money laundering guidelines, there is often no control mechanism to ensure such compliance. Some of the largest Islamic financial institutions now operate investment houses in Europe and elsewhere.

- **Money Changers.** Money changers play a major role in transferring funds in Asia, the Americas, the Middle East, and other regions. Their presence is largest in countries where cash is an accepted means to finalize business deals and where large numbers of expatriates work to remit funds to family abroad.
- **Underground Bankers.** Commonly referred to as alternative remittance systems, such as the Hawala or Hundi, underground bankers are prevalent throughout Asia and the Middle East.

## *The United States' Response*

**Legislation:** The U.S. enacted legislation specifically to address the problem of terrorist financing. Title 18 U.S.C. § 2339A, enacted in 1994, amended in 1996, and strengthened again most recently in 2001 by the USA PATRIOT Act, makes it a crime for persons within the U.S. to provide, conceal or disguise the nature, location, source, or ownership of “material support or resources” to be used in a violation of any of the predicate enumerated crimes. There are further statutes directly related to the fight against terrorist financing such as the Antiterrorism and Effective Death Penalty Act (AEDPA) and the International Emergency Economic Powers Act (IEEPA) that give the President broad authority to regulate international transactions under certain specified circumstances.

**Prosecution:** Funds involved in traditional money laundering are usually the proceeds of a specific prior crime. Funds used to finance terrorism generally are not related to the proceeds of a specific prior crime. Terrorist funds acquire their criminal “taint” from the intent to assist in an act of terrorism or to fund a designated foreign terrorist organization. Despite this difference, the money laundering statutes provide numerous opportunities for United States prosecutors in terrorist financing cases. For example, where a violation of the money laundering statutes can be charged, the prosecution can seek criminal and civil asset forfeiture.

There are several, terrorism-related, alternative crimes that can serve as predicate crimes to money laundering, including the charges of laundering of monetary instruments and engaging in monetary transactions in property derived from specified unlawful activity. Providing material support to terrorists and other such terrorist-related offenses are also crimes that can involve money laundering. The money laundering charge most commonly applied to financiers of terrorism is available where funds are transmitted internationally with the intent to promote a specified unlawful activity such as providing material support to terrorists, an offense against a foreign nation involving murder, kidnapping, robbery, extortion, or destruction of property by means of explosive or fire, or other terrorism-related specified crimes. In addition, the International Emergency Economic Powers Act authorizes the imposition of criminal and civil penalties against any person who engages in transactions prohibited by executive orders and implementing regulations issued under that Act.

## *The International Response*

The international consensus to fight terrorist financing has never been stronger. The international community is equipping itself with increasingly more effective tools to prevent and respond to terrorist financing. The Group of Eight (G-8) nations, the United Nations, the European Union, the Financial

Action Task Force on Money Laundering (FATF), and the Organization of American States have all sponsored conferences and crafted recommendations designed to produce enhanced cooperation and strengthened measures to combat terrorist financing. As further evidence of international resolve, on September 28, 2001, the United Nations Security Council (UNSC) adopted Resolution 1373 which reaffirms earlier UN counter-terrorism resolutions and requires states to combat terrorism and the financing of terrorism.

## Offshore Financial Centers

Although there is little consensus regarding the exact definition of an offshore financial center (OFC), certain characteristics distinguish traditional onshore financial centers from those termed “offshore”. Offshore financial centers are, in the vast majority of cases, segregated from the traditional banking structure of the jurisdiction. At least 90 percent of all jurisdictions offering offshore financial services restrict access to the offshore sector to non-residents, thereby creating a highly confidential and parallel financial system within their own borders. Many jurisdictions with OFCs conduct financial transactions only in currencies other than the local currency. OFCs also differ from onshore jurisdictions in their regulatory regimes and legal frameworks. Many OFCs lack the stringent regulatory and supervisory regimes found in developed onshore jurisdictions. In the majority of OFCs, banks are not required to adhere to a wide range of regulations normally imposed on onshore banks. In most OFCs, non-bank financial industries, such as the insurance and securities industries, are subject to even less, if any, regulation than is the banking industry.

OFCs maintain that their carefully crafted laws and regulations provide beneficial business and financial planning options for their clients. These include, but are 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 country marketing regulations; preservation of assets; investment of overnight funds; and freedom from certain home country regulatory requirements.

Freedom from certain home country regulatory requirements provides opportunities to those with criminal intent. In many OFCs, a bank can be formed, 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 are free of exchange and interest rate restrictions, minimal or no capital reserve requirements are required and transactions are mostly tax-free. Some OFCs permit the licensing and registration of “shell banks”—generally understood as banks that exist on paper only and do not have a physical presence in any jurisdiction. Of the more than 4000 offshore banks thought to exist, the number of shell banks remains unknown.

A principal attraction of the OFCs is often the existence of legal frameworks designed to obscure the identity of the beneficial owner, to promote regulatory and supervisory arbitrage, and to provide mitigation or evasion of home-country tax regimes. Some of these OFCs offer the ability to form and manage confidentiality of a variety of international business companies (IBCs) and exempt companies, trusts, investment funds and insurance companies, many with nominee directors, nominee officeholders and nominee shareholders.<sup>1</sup> When combined with the use of bearer shares (shares that do not name the owner) and “mini-trusts” (the latter are instruments used to further insulate the beneficial owner while bridging the ownership and management of the corporate entity), IBCs can present impenetrable barriers to law enforcement.

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<sup>1</sup> “IBC” is the term used to describe a variety of offshore corporate entities, which are almost always restricted to transacting business outside the jurisdiction in which they are formed. IBCs are characterized by rapid formation, at low cost, with broad powers, low to no taxation, minimal or non-existent reporting requirements and secrecy. Many OFCs permit IBCs to issue bearer shares. The Enron Corporation, for example, reportedly registered IBCs in the Cayman Islands and the Turks and Caicos OFCs.

## Money Laundering and Financial Crimes

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This lack of transparency and the ability to engage in regulatory arbitrage, coupled with a concomitant reluctance or refusal of many OFCs to cooperate with regulators and law enforcement officials from other jurisdictions, attract those with both legitimate and 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 activities. With the advent of the Internet and other technological advances, funds can be transferred around the globe instantaneously, providing further opportunities to engage in the placement and layering of illicitly gained funds. There is also a growing concern that terrorists and other criminals are increasingly enlisting the services of unethical lawyers, accountants and other professionals to help them discover and manipulate new money laundering and terrorist financing opportunities afforded by the new technologies. The attraction for small states in the offshore financial services market is a dependable source of income that in some instances exceeds 50 percent of a jurisdiction's GDP.

Although IBCs have served as the predominant instruments for committing financial crimes in OFCs, a variety of types of trusts play important roles as well. One form of trust, the Asset Protection Trust (APT), protects the assets of individuals from civil judgments in their home countries. 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" providing for funds to be immediately transferred to another OFC if the APT is threatened by inquiry. Used in combination, IBCs, mini-trusts, bearer shares and APTs make it nearly impossible for competent authorities to generate paper trails or to identify beneficial owners of companies, while they simultaneously protect those engaging in serious financial crime from civil or criminal prosecution.

Other practices found in some OFCs cause problems for law enforcement. One such practice, well advertised on the Internet, is the selling of "economic citizenship"—a practice that, if improperly controlled, can enable individuals suspected of committing crimes to purchase citizenship in an OFC jurisdiction that may not have an extradition agreement with the purchaser's original home country. Purchasers of economic citizenships can change their names to go along with their new passports, creating yet another impediment to law enforcement. During 2001, three Caribbean Basin OFCs sold inadequately controlled economic citizenships: Belize, Dominica and St. Kitts & Nevis. Grenada suspended selling improperly controlled economic citizenships in 2001. In the Pacific region, Nauru sells improperly controlled economic citizenships.

Not only criminals purchase economic citizenships. Terrorists do as well. In December, two individuals purchased economic citizenships from Belize for \$25,000 apiece. They then attempted to obtain visas to enter the United States as citizens of Belize. They were denied entry visas by the consular staff of the American embassy in Belize because the two applicants were members of a proscribed Middle Eastern terrorist group. The government of Belize subsequently announced that it would cease selling economic citizenships in January 2002.

Internet gaming executed via the use of credit cards and offshore banks represents yet another powerful vehicle for criminals to launder funds from illicit sources as well as to evade taxes. Advertised on the Internet as being located primarily in the Caribbean Basin, virtual casinos can be extremely profitable for governments that sell the licenses and likely share in the operators profits. At the beginning of 2001, Antigua and Barbuda, for example, reportedly had licensed more than 80 Internet gaming websites at a cost of \$75,000–\$85,000 per license for a sports betting shop and \$100,000 for virtual casinos. As the Offshore Financial Services chart at the end of this section illustrates, St. Kitts/Nevis is the only Caribbean OFC to sell "economic citizenships" and license virtual casinos. In the Pacific region, only the Palau and Vanuatu OFCs are reported to sell gaming licenses, although neither sells economic citizenships.

## *Initiatives Targeting Financial Abuse*

In recent years, various bodies have examined the threats presented by a lack of transparency and oversight posed to an increasingly interdependent global financial system. Two 2000 initiatives, described in detail in the 2001 International Narcotics Control Strategy Report, have had a direct impact on the offshore financial services industry: The Financial Stability Forum (FSF) and the Financial Action Task Force Non-Cooperative Countries and Territories exercise (FATF NCCT).

### *The Financial Stability Forum*

The FSF concluded that a number of the OFCs were perceived as having weaknesses in financial supervision, cross-border cooperation and transparency. Divided into three groups, eight OFCs (Group I) were described as “largely of a good quality”; nine Group II OFCs were found to be of lower quality than Group I OFCs but apparently somewhat more cooperative, more transparent and somewhat better supervised than the twenty-six OFCs in Group III. All thirty-five OFCs in Group II and III were found to have regulatory deficiencies that could allow financial market participants to engage in regulatory arbitrage of several forms, thereby undermining efforts to strengthen the global financial system.<sup>1</sup>

The FSF requested the International Monetary Fund (IMF) to develop, organize and conduct assessments of OFC adherence to international financial standards, including several of the FATF 40 Recommendations that involved supervision and regulatory matters. The FSF recommended giving “highest priority to those in Group II” and “high priority to those OFCs in Group III whose scale of financial activity has the greatest potential impact on global financial stability.”

The IMF agreed to conduct assessments only of those OFCs that volunteered and first completed a self-assessment of their supervisory regimes, focused principally on the supervisory and regulatory arrangements in place for banking, securities and insurance activities. The self-assessment would be followed by an IMF-led assessment (Module II Assessment). A third broader and more complex IMF-led assessment (Module III) of those OFCs previously assessed by the IMF would follow. The IMF will make no assessments public unless the assessed jurisdiction voluntarily consents. During 2001, the IMF had completed Module II assessments of Cyprus, Gibraltar, Panama, Macau, Belize and Aruba.

### *The Financial Action Task Force on Money Laundering Non-Cooperative Countries and Territories Exercise*

The FATF Non-Cooperative Countries and Territories exercise measured jurisdictions’ anti-money laundering regimes against twenty-five criteria for the purpose of determining which jurisdictions weakened the global effort to combat money laundering. These criteria encompass four broad areas: loopholes in financial regulations; obstacles raised by other regulatory requirements; obstacles to international cooperation; and, inadequate resources for preventing and detecting money laundering activities.

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<sup>1</sup> Financial Stability Forum press release, May 26, 2000. *The Report of the Working Group on Offshore Financial Centers* is located at the FSF’s website: <http://www.fsforum.org>. Group I OFCs: Hong Kong, Luxembourg, Singapore and Switzerland, Guernsey, Ireland, the Isle of Man and Jersey. Group II OFCs: Andorra, Bahrain, Barbados, Bermuda, Gibraltar, Labuan (Malaysia), Macao, Malta and Monaco; Group III OFCs: Anguilla, Antigua and Barbuda, Aruba, Belize, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Lebanon, Liechtenstein, Marshall Islands, Mauritius, Nauru, Netherlands Antilles, Niue, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Samoa, Seychelles, the Bahamas, Turks and Caicos, and Vanuatu.

At its June 2000 Plenary, the FATF identified fifteen jurisdictions as non-cooperative in the international fight against money laundering. All but four were OFCs.<sup>1</sup> At the June 2001 Plenary, the FATF determined that four OFC jurisdictions—the Bahamas, the Cayman Islands, Panama and Liechtenstein—had made sufficient progress in remedying the noted deficiencies in their anti-money laundering regimes to be removed from the non-cooperative list. In 2001, the FATF added the OFCs of Grenada and Guatemala to the list of Non-Cooperative Countries and Territories (NCCT), as well as the non-OFC jurisdictions of Burma, Egypt, Hungary, Indonesia, Nigeria and Ukraine.

By year's end, seven of the eight remaining OFCs on the original NCCT list had passed adequate anti-money laundering legislation to avoid the imposition of countermeasures by FATF. Nauru was the only delinquent OFC. FATF reviewed Nauru's legislation, deemed it insufficient, and warned Nauru that the law would have to be amended by the end of November or it would have to face countermeasures by the 29 member state FATF. Nauru did not comply and FATF members agreed to invoke countermeasures against it. The United States issued its countermeasures in January 2002.

## *The United States Congress*

As effective as the FATF NCCT exercise has proven to be in convincing recalcitrant OFCs to pass anti-money laundering legislation and regulations, legislation passed by the United States Congress may prove to have a more fundamental impact on criminals and terrorists who have used poorly regulated OFCs to launder criminally derived money or to disguise assets derived from allegedly legitimate sources. On October 26, 2001, President George W. Bush signed a new anti-terrorism bill, the Uniting and Strengthening America Act by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. The new Act generally prohibits covered U.S. financial institutions from maintaining a correspondent account in the United States for a foreign shell bank. The Act also generally requires covered U.S. financial institutions to take reasonable steps to ensure that their correspondent account holders (foreign banks) do not use those accounts to indirectly provide banking services to a foreign shell bank.

The Act also requires that U.S. financial institutions that establish, maintain, administer or manage a private banking account or correspondent account for a non-U.S. person to apply due diligence policies, procedures and controls reasonably designed to detect and report instances of money laundering through those accounts. The Act imposes additional standards for such accounts held by foreign banks operating under offshore licenses or licenses from certain jurisdictions.

The USA PATRIOT Act also required U.S. financial institutions to take “reasonable steps” to ensure that their correspondent account holders (foreign banks) are not using those accounts to provide banking services to foreign shell banks indirectly in violation of the USA PATRIOT Act. U.S. Treasury Department regulations suggested that one “reasonable step” would be for U.S. financial institutions to obtain written notification from their corresponding banking clients certifying that none of their account holders are shell banks as defined by the Act.

In Nauru, for example, it is believed that nearly all, if not all, 400 banks registered in Nauru are shell banks—banks that exist on paper only for the purpose of “booking” monies through them. In many cases, the beneficial owners of the shell bank are anonymous and have established equally anonymous IBCs that are aggressively employed to move funds through their fictional shell banks.

While Nauru might be the extreme example, the number of banks currently registered in jurisdictions that offer offshore services (as noted on the Offshore Services chart that follows this section) may decrease dramatically in 2002 as shell banks come under closer scrutiny.

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<sup>1</sup> FATF identified the following OFCs as “non-cooperative” in June 2000: the Bahamas, the Cayman Islands, Cook Islands, Dominica, Liechtenstein, Marshall Islands, Nauru, Niue, Panama, St. Kitts and Nevis and St. Vincent and the Grenadines. Other jurisdictions identified as non-cooperative were Israel, Lebanon, the Philippines and Russia.

The USA PATRIOT Act also allows the U.S. Government to seize funds held by foreign banks in U.S. correspondent accounts to satisfy certain types of seizure orders against funds deposited in the foreign bank abroad. The first such seizure of this nature occurred December 2001 with respect to forfeitable funds deposited by two U.S. citizens in the OFC of Belize.

The continuation of the IMF assessments, the FATF NCCT exercise and the adherence to and enforcement of the USA PATRIOT Act will not only continue to distinguish well regulated offshore jurisdictions from those that are not, but will diminish the capacity of OFCs to cater to criminals attempting to launder money or finance terrorist activities through U.S. financial institutions.

## Explanatory Notes To the Offshore Financial Services Chart

Public information regarding offshore financial centers can be difficult to obtain. Industry publications, discussions with regulators of the OFCs, foreign government finance officials, embassy reports, analyses from United States Government (USG) agencies, international organizations, and secondary sources provided the data for the chart.

Excluded are jurisdictions that provide low or no taxes to individuals but offer no other services or products normally associated with the offshore financial service sector. Also excluded are jurisdictions that have established OFCs but for which the USG has little or no information regarding the operations of the OFC. 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 information regarding specific categories, or available information is inconclusive, the corresponding cells on the chart are left blank.* In some categories, symbols other than or in addition to Y or N are used. 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 Services Chart

**Offshore Banks:** The number is provided if known. A Y indicates that although a jurisdiction that offers offshore financial services (OFC) licenses offshore banks, the number of such banks is not known. An N indicates that no offshore banks are known to be licensed in the jurisdiction. A blank cell indicates no or inconclusive information regarding whether offshore banks are offered within the OFC.

**Trust and Management Companies:** These are companies that provide fiduciary services, as well as serving as marketing agents, representatives, lawyers, accountants, trustees, nominee shareholders, directors, and officers of international business companies.

**International Business Companies (IBCs) & Restricted Companies:** Numbers are provided when known and public; in many cases, the numbers are significantly underreported. A P indicates that the jurisdiction does not publicize the number of IBCs registered within it.

**Bearer Shares:** Share certificates can be issued without the name of the beneficial owner. A Y indicates that the OFC offers bearer shares; an N indicates that it does not; and a blank cell indicates that the USG does not know if bearer shares are offered within the OFC.

**Asset Protection Trusts (APTs):** Trusts that protect assets from civil judgment. A Y indicates that the OFC offers APTs; an N indicates that it does not; and a blank cell indicates no or inconclusive information regarding whether APTs are offered within the OFC.

**Insurance and Re-insurance Company Formation:** A Y indicates that the OFC allows formation of insurance and re-insurance companies; an N indicates that it does not; and a blank cell indicates no or inconclusive information regarding whether insurance and re-insurance companies are allowed within the OFC.

**Sells “Economic Citizenship”:** A Y indicates that the OFC sells economic citizenships; an N indicates that it does not; and a blank cell indicates no or inconclusive information regarding whether the OFC sells economic citizenships. An S indicates that an OFC has suspended or ceased sales in 2001.

**Internet Gaming:** Licenses granted by jurisdictions that enable grantees to establish “virtual casinos” on the Internet, in which customers can pay via credit card. A Y indicates that the OFC licenses Internet gaming; an N indicates that it does not; and a blank cell indicates no or inconclusive information regarding whether Internet gaming is offered within the OFC.

**Criminalized Drug Money Laundering:** A D indicates that the OFC has a law criminalizing narcotics-related money laundering only. A BD indicates that crimes other than those related to narcotics are considered to be predicate crimes for money laundering in the OFC. An N indicates that there is no legislation criminalizing money laundering in the OFC.

**Financial Action Task Force (FATF) Non-Cooperative Exercise:** This column provides the FATF finding. NC indicates the jurisdiction was determined to be non-cooperative; R indicates that the jurisdiction was reviewed and was not identified as non-cooperative; a blank cell indicates that the jurisdiction was not reviewed. RM indicates that FATF removed the jurisdiction from the NCCT list.

**Membership in International Organizations:** This cell lists the multinational organizations that have been formed to combat money laundering and/or to establish a sound supervisory regime in which the OFC participates.

## Offshore Financial Services Chart

Jurisdictions	Offshore Banks	Trust & Management Companies	IBCs/Exempt and/or Restricted Companies	Bearer Shares	Asset Protection Trusts	Insurance and Re-insurance	Sells Economic Citizenship	Internet Gaming	Criminalized Drug Money Laundering (D) & Beyond Drugs (BD)	FATF Noncooperative Exercise	Membership in International Organizations (A,C,CE,F,O,OC, I, S)
<b>The Americas</b>											
Anguilla	2	Y	2,792	Y	Y	Y	N	N	BD		C, I* <sup>1</sup>
Antigua and Barbuda	21	Y	12,000	Y	Y	Y	N	Y	BD	R	C, OC
Aruba	2	Y	4,000	Y	N	Y	N	N	BD		C, F, O, I*
Bahamas	Y	Y	100,000	N	Y	Y	N	N	BD	RM	C, O, OC, I, S
Barbados	55	Y	4,000	N	Y	Y	N	N	BD		C, O, OC, S
Belize	2	Y	15,000	Y	Y	Y	S	Y	BD	R	C, OC, S, I*
Bermuda	N	Y	12,000	N	Y	Y	N	N	BD	R	C, O
British Virgin Islands	13	Y	360,000	Y	Y	Y	N	N	BD	R	C
Cayman Islands	570	Y	45,000	Y	Y	Y	N	N	BD	RM	C, O, I
Costa Rica	44	Y	20	N	N		N	Y	BD	R	C, OC, S
Dominica	3	Y	1,100	N	Y	Y	S	Y	BD	NC	C, OC
Grenada	16	Y	4,000	Y	Y	Y	S	Y	BD	NC	C, OC
Guatemala	Y	N		Y	N			N	BD	NC	OC
Montserrat	15		22	Y		N	N	N	BD		C
Netherlands Antilles	33	Y	20,000	Y	N		N	Y	BD		C, F, O, I
Panama	34	Y	370,000		Y	Y	N	N	BD	RM	C, O, OC, S

<sup>1</sup> A = Asia/Pacific Group; C = Caribbean Financial Action Task Force; CE = Council of Europe Select Committee on Money Laundering; E = Eastern and Southern Africa Anti-Money Laundering Group; F = Financial Action Task Force; I = Offshore Group of Insurance Supervisors (OGIS); I\* = Observer to the OGIS; O = Offshore Group of Banking Supervisors; OC = OAS/Inter-American Drug Abuse Control Commission; S = International Organization of Security Commissioners.



## Money Laundering and Financial Crimes

Jurisdictions	Offshore Banks	Trust & Management Companies	IBCs/Exempt and/or Restricted Companies	Bearer Shares	Asset Protection Trusts	Insurance and Re-insurance	Sells Economic Citizenship	Internet Gaming	Criminalized Drug Money Laundering (D) & Beyond Drugs (BD)	FATF Noncooperative Exercise	Membership in International Organizations (A, C, CE, F, O, OC, I, S)
St. Kitts & Nevis				Y	Y	N	Y	Y	BD	NC	C, OC
(St. Kitts)	N	Y	500								
(Nevis)	1	Y	22,000								
St. Lucia	1	Y	100	N	Y	Y	N	N	BD	R	C, OC
St. Vincent & The Grenadines	33	Y	10,135	Y	Y	Y	N	Y	BD	NC	C, OC
Turks and Caicos	8	Y	13,000	Y	Y	Y	N	N	BD	R	C, I
Uruguay	12	N	Y	Y	N	Y	N	N	BD	R	OC, S
<b>Europe</b>											
Cyprus	29	Y	52,000	N	Y	Y	N	N	BD	R	CE, O, S
Gibraltar	21	Y	8,300	Y	Y	Y	N	Y	BD	R	O, I
Guernsey <sup>2</sup>	71	Y	7,500	N	N	Y	N	N	BD	R	O, I, S
Alderney	N	Y	455		N		N	Y			
Sark	N	Y			N		N	N			
Hungary	N	N	600	Y	N	N	N	N	BD	NC	CE
Ireland	N	Y	40,000	N	N	Y	N	N	BD		F, S
Isle of Man <sup>2</sup>	Y	Y	24,300	Y	N	Y	N	N	BD	R	O, I, S
Jersey <sup>2</sup>	Y	Y	20,000	N	N	Y	N	N	BD	R	O, I, S
Liechtenstein <sup>1</sup>	17	Y	75,000	Y	N	Y	N	N	BD	RM	CE
Luxembourg <sup>2</sup>	200	Y	68,000	Y	N	Y	N	N	BD		F, S
Malta	3	Y	417	N	N	Y	N	N	BD	R	CE, O, S

<sup>1</sup> Jersey, Guernsey, the Isle of Man, Liechtenstein, Luxembourg and Switzerland are unique. Residents are able to avail themselves of many OFC services and products normally reserved for nonresidents.

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Monaco	N		Y		N		N	N	BD	R	
Switzerland <sup>1</sup>	500	Y	Y	Y	N		N	N	BD		F, S
“Turkish Republic of No. Cyprus”	40	N	12		N	N	N	N	D		
<b>Africa &amp; Middle East</b>											
Botswana	Y		Y								
Bahrain	48	Y	Y	N	N	N	N		BD		O, S
Liberia			Y	Y	Y		N	N	N		
Mauritius	11	Y	10,700	Y	Y		N	N	N	R	E, O, S
Madeira (Portugal)	27	Y	4,000	N	N	Y	N	N	BD		
Seychelles	Y		4,800	Y		Y	N	Y	BD	R	
Tunisia	12		1,200		N		N	N	N		S
<b>Asia</b>											
Brunei	N		Y								
Hong Kong	Y	Y	474,500	N	N	Y	N	N	BD		A, F, O, S
Labuan (Malaysia)	54	Y	2,300	N	Y	Y	N	N	BD		A, I, O, S
Macau	Y		Y		N		N	N	BD		A, O
Philippines	15								BD	NC	A, S

<sup>1</sup> Jersey, Guernsey, the Isle of Man, Liechtenstein, Luxembourg and Switzerland are unique. Residents are able to avail themselves of many OFC services and products normally reserved for nonresidents.

## Money Laundering and Financial Crimes

Jurisdictions	Offshore Banks	Trust & Management Companies	IBCs/Exempt and/or Restricted Companies	Bearer Shares	Asset Protection Trusts	Insurance and Re-insurance	Sells Economic Citizenship	Internet Gaming	Criminalized Drug Money Laundering (D) & Beyond Drugs (BD)	FATF Noncooperative Exercise	Membership in International Organizations (A, C, CE, F, O, OC, I, S)
Singapore	83	N	Y	N	N	Y	N	N	BD		A, F, O, S
Thailand	44		N		N		N	N	BD		A, S
<b>Pacific</b>											
Cook Islands	25	Y	1,200	Y	Y	Y	N	N	BD	NC	A
Marshall Islands	N	Y	4,000	Y	N	N	N	N	BD	NC	
Nauru	400	Y	Y	Y	N	Y	Y	N	N	NC	
Niue	1	Y	6,000	Y	Y	Y	N	N	BD	NC	A
Palau	N	N	N			N	N	Y		R	
Samoa	8	Y	4,551	Y	Y	Y	N	N	BD	R	A, I*
Vanuatu	55	Y	2,500	Y	N	Y	N	Y	BD	R	A, O

## Money Laundering Trends and Typologies

As in previous years, money launderers have demonstrated great creativity in combining traditional money laundering techniques into complex money laundering schemes designed to thwart the ability of authorities to prevent, detect and prosecute money laundering. Below are some of examples of the various money laundering typologies and a review of U.S. money laundering trends in 2001.

### *Statistical Overview of U.S. Money Laundering Trends in 2001*

The U.S. Suspicious Activity Report System (SARs) plays a critical role in U.S. anti-money laundering efforts. Similar types of reporting throughout the world are key to global efforts to combat money laundering. The aggregate totals for U.S. SARs help illustrate the nature of illegal proceeds and relative scale of the problem. The following statistics provide aggregate totals for SARs) filed by depository institutions (i.e., banks, thrifts, savings and loans, and credit unions) since implementation of the U.S. SAR system in April 1, 1996 through April 30, 2001. A small part of the total volume relates to reports filed by affiliates of depository institutions or, in some cases, filed voluntarily by brokers and dealers in securities who are not affiliated with banks, money services businesses, or gaming businesses, that, at this time, are not yet required under the Bank Secrecy Act (BSA) to file SARs.

**Chart 1: SAR Filings by Year and Month**

Month	Number of Filings					
	1996	1997	1998	1999	2000	2001
January		6,123	6,832	8,621	13,399	13,767
February		5,519	7,055	9,949	13,633	14,660
March		6,850	8,938	11,492	15,154	16,084
April	2,170	7,148	8,057	9,478	11,498	15,355
May	4,404	6,754	7,409	10,400	13,363	
June	6,070	6,696	8,737	10,956	13,915	
July	6,907	7,175	8,757	8,518	12,032	
August	6,567	6,322	8,532	10,484	14,853	
September	6,938	7,561	7,577	8,471	13,514	
October	7,474	7,439	8,165	9,842	12,662	
November	5,029	5,960	7,848	11,243	14,145	
December	6,510	7,604	8,614	11,050	14,546	
<b>Subtotal</b>	<b>52,069</b>	<b>81,151</b>	<b>96,521</b>	<b>120,504</b>	<b>162,714</b>	<b>59,866</b>
Total Filings	572,825					

Chart 2 provides a rank ordering of the underlying suspicious activity identified in the SAR data between April 1996 and April 2001.

# Money Laundering and Financial Crimes

**Chart 2: Frequency Distribution of SAR Filings by Characterization of Suspicious Activity**

**April 1, 1996 Through April 30, 2001**

Violation Type	1996	1997	1998	1999	2000	2001
BSA/Structuring/Money Laundering	21,655	35,625	47,223	60,983	90,606	31,980
Bribery/Gratuity	94	109	92	101	150	60
Check Fraud	9,078	13,245	13,767	16,232	19,637	7,933
Check Kiting	2,902	4,294	4,032	4,058	6,163	2,497
Commercial Loan Fraud	583	960	905	1,080	1,320	393
Computer Intrusion	0	0	0	0	65	62
Consumer Loan Fraud	1,190	2,048	2,183	2,548	3,432	1,391
Counterfeit Check	2,405	4,226	5,897	7,392	9,033	3,072
Counterfeit Credit/Debit Card	391	387	182	351	664	378
Counterfeit Instrument (Other)	219	294	263	320	474	171
Credit Card Fraud	3,340	5,075	4,377	4,936	6,275	2,358
Debit Card Fraud	261	612	565	721	1,210	516
Defalcation/Embezzlement	3,286	5,284	5,252	5,178	6,117	2,137
False Statement	1,880	2,200	1,970	2,376	3,051	818
Misuse of Position or Self Dealing	952	1,532	1,640	2,064	2,186	735
Mortgage Loan Fraud	1,318	1,720	2,269	2,934	3,515	1,446
Mysterious Disappearance	1,216	1,765	1,855	1,854	2,225	728
Wire Transfer Fraud	302	509	593	771	972	467
Other	4,836	6,675	8,583	8,739	11,148	4,719
Unknown/Blank	1,539	2,317	2,691	6,961	6,971	2,900

## *Money Laundering Trends in 2001*

The following were some of the key trends and areas of high activity in money laundering in 2001:

### **Wire Transfer and Shell Company Activity**

Suspicious Activity Reports (SARs) filed by U.S. based banks have cited suspicious wire transfer activity transpiring through U.S. correspondent accounts maintained by foreign banks. The SARs typically reference possible shell entities as parties to the wire transfer activity. Many of these shell companies are domestically based.

Reports filed on correspondent accounts revealed large dollar volumes of suspicious wire transfer activity transpiring through U.S. correspondent accounts maintained by foreign banks. This activity has often involved so-called “unsubstantiated entities” (companies who do not appear as listed on the Internet or through other research). These “unsubstantiated” entities have been involved as parties to the suspicious

wire transfer activity transpiring through the correspondent accounts maintained by foreign banks with the U.S. reporting bank.

Some reports also referenced suspected “shell banks” as parties to the suspicious wire transfer activity through foreign correspondent bank accounts. Other suspicious factors cited by the reporting banks, beyond the detection of suspected shell entities, include: large dollar volume wire transfers; repetitive patterns of frequent wire transfers; and unusual directional flows considered by the reporting banks to be deviations from normal legitimate business transaction flows.

Several U.S. based banks have the ability to detect and report this suspicious activity through monitoring of the correspondent accounts that they maintain for foreign banks. Some U.S. based banks have also closed correspondent accounts maintained by foreign banks due to continuous suspicions that many of the foreign banks’ customers are possible shell entities.

### **Computer Intrusion**

Law enforcement has identified computer intrusion as a new type of suspicious activity as a result of reports from financial institutions regarding possible attempts to intrude into their computer systems. Computer Intrusion is defined as gaining access to a computer system of a financial institution to: remove, steal, procure or otherwise affect funds of the institution or the institution’s customers; remove, steal, procure or otherwise affect critical information of the institution including customer account information; or damage, disable or otherwise affect critical systems of the institution. For purposes of this reporting, computer intrusion does not mean attempted intrusions of web-sites or other non-critical information systems of the institution that provide no access to institution or customer financial data or other critical information.

From June 1, 2000 to May 31, 2001, 147 suspicious activity reports on computer intrusion were filed by financial institutions in 34 states and Puerto Rico. All were filed by depository institutions, with those in New York, California and Illinois accounting for nearly 30 percent.

### **Money Transmitters**

The majority of companies in the United States that make up the money services businesses (MSB) industry recognize that the products and services that they provide may be vulnerable to abuse. Some of the national MSBs, including the leading money transmission services, money order and travelers’ checks issuers, check cashing businesses and currency exchange providers have developed internal systems to detect suspicious activity.

Reports filed by money transmitter companies, both primary companies (companies that own a money transmitter business) and agent businesses (companies that act as agents), indicate that there are many varied patterns of suspicious activity involving money transmitter companies. Primary among those are customer attempts to disperse transactions and circumvent record keeping dollar amount thresholds.

### **Identity Theft**

Identity theft and related fraudulent activities have been reported by financial institutions since 1996. In the June 2001 Issue of the SAR Activity Review, identity theft was selected as the Highlighted Trend based on the financial industry’s perception of increases in both the incidence of identity theft-based fraud and increased SAR reporting.

Since December 1, 2000, filing of reports related to identity theft have increased by 50 percent from the same period a year before. Because the rate of identity theft incidents continues to increase, the Federal Trade Commission has developed a pamphlet to assist consumers in avoiding identity theft and, in

instances of abuse, to give steps to take in addressing stolen identities. Federal bank supervisors also recently released guidance to banking organizations on identity theft.

## **Terrorist Financing**

U.S. law enforcement conducted a review of investigative case files to provide guidance to financial institutions on indicators of activity that could be linked to various criminal activities including terrorism. The following patterns of activity indicate collection and movement of funds that could be associated with terrorist financing:

- Use of multiple personal and business accounts to collect and funnel funds to a small number of foreign beneficiaries;
- Deposits are followed within a short period of time by wire transfers of funds;
- Beneficiaries are located in a problematic foreign jurisdiction;
- Structuring of cash deposits in small amounts in an apparent attempt to circumvent Federal Currency Transaction Report requirements;
- Mixing of cash deposits and monetary instruments;
- Deposits of a combination of monetary instruments atypical of legitimate business activity (business checks, payroll checks and social security checks);
- Stated occupations of those engaging in transactions that are not commensurate with the level of activity (e.g., student, unemployed, self-employed);
- Large currency withdrawals from a business account not normally associated with cash transactions.
- Movement of funds through a FATF “non-cooperative country or territory”; and,
- Involvement of multiple individuals from the same country or community.

## *Other Money Laundering Trends and Typologies*

### **Alternative Money Remittance Systems**

Alternative remittance systems, sometimes also referred to as informal value transfer systems (IVTS), are a family of monetary remittance systems that provide for the transfer of value outside of the regulated financial industry. These systems are known by a variety of names reflecting ethnic and national origins, predominantly South Asian and Chinese. They operate throughout the world, especially in countries with large expatriate populations from Africa and Asia. Included, among others, are such systems as hawala (India), hundi (Pakistan), fei ch’ien (China), phoe kuan (Thailand), hui k’uan (Mandarin Chinese), ch’iao hui (Mandarin Chinese) and nging sing kek (Cantonese Chinese). Most of these systems pre-date the emergence of modern banking and other financial institutions. The Colombian Black Market Peso Exchange can also be characterized as a form of alternative remittance system.

These systems provide mechanisms for the remittance of currency or other forms of monetary value—most commonly gold—without physical transportation or use of contemporary monetary instruments. These systems are used extensively as a means for expatriates, such as foreign laborers, to have funds delivered to families in the home country without contact with authorities on either the sending or receiving end. The systems rely on a pairing of brokers, one who orders a disbursement on behalf of a sender and another that makes the disbursement to the receiver, followed at some point in time with a

clearing process to settle account imbalances between the brokers. The systems operate on the basis of a trusted relationship established in the context of narrowly defined ethnic and national ties. Records are not typically kept about the identities of the transactors or details of the transactions.

Because of the anonymity and secrecy of the remittance transactions, these systems are known to have been used in a variety of criminal activities including money laundering, terrorist financing, alien smuggling, drug trafficking, arms trafficking, corruption of government officials, currency controls evasion and tax evasion. Although these systems operate outside of the regulated financial industry, they may intersect with banks and other traditional financial institutions in order to either obtain currency needed to make disbursements, or as links in the account clearing process involving wire transfers, imports and exports of goods such as electronics, securities transactions etc. It is at these links that the brokers or their representatives may become known to financial institutions, and their transactions reviewed for indications of unusual activity in countries that require the reporting of suspicious transactions.

### **Black Market Peso Exchange System**

The Black Market Peso Exchange System (BMPE) is a trade-based system that depends on commercial traffic between the U.S. and Colombia to launder profits from the sale of illegal drugs in the United States. The BMPE is a significant money laundering conduit used by Colombian narcotics traffickers in repatriating revenues to Colombia. The process begins when a Colombian drug organization 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 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 organization's account in Colombia. At this point, the organization 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.

To combat the BMPE, the U.S. Department of Treasury instituted an interagency working group whose aggressive attack on this problem has resulted in enhanced coordination of anti-BMPE investigations and increased successful prosecutions. Treasury's outreach programs to educate U.S. exporters of the operations of and their vulnerability to the BMPE have also achieved success. During the past year, high-level U.S. Government officials met with senior officials of U.S. companies whose products are vulnerable to the BMPE to explain the system and to encourage them to develop programs to counter the BMPE. Subsequently, company officials and government experts developed draft best practice guidelines to help U.S. importers and exporters identify BMPE-related transactions and institute protective measures. These draft guidelines are now under study by U.S. companies and are being adapted to fit business practices in various industries. These guidelines are expected to be implemented by June 2002.



In addition to domestic outreach efforts, the United States, Colombia, Panama, Venezuela and Aruba formed an international working group of experts to combat this money laundering system. This working group is to study the BMPE, report its findings, and recommend policy options and actions that can be taken by the governments against the BMPE.

On October 21, 2000, U.S. Treasury Department and Department of Justice officials and government officials from Aruba, Colombia, Panama, and Venezuela participated in the first meeting of this working group. At the meeting, the 30 experts discussed how the BMPE money laundering system affected each of their respective countries. Topics of discussion included the BMPE steps, documentation of international commercial transactions, the problems with existing paper trails and laws, and ways to improve international cooperation.

During 2001, the BMPE Multilateral Working Group met in Panama, Colombia, and the United States and conducted studies of day-to-day operations and regulation of free trade zones, the relationship between merchants in and operators of these zones and zone authorities including Customs. As a result of these meetings, experts from the participating countries formulated policies and actions as recommendations to their respective governments.

These wide ranging recommendations included improving international cooperation through the design and implementation of standardized recording and reporting of international shipments to facilitate information exchange between governments, The Experts Group also recommended adequate screening and regulation of free trade zone merchants and operators, and expanded efforts to educate international commerce merchants to the risks of trade-based money laundering and methods to combat it. Recognizing that contraband trade and related money laundering is endemic to the economies of certain regions, the experts of the Multilateral Group also recommended conducting studies of economic, social, political and/or legal issues to find comprehensive responses to problems. The Multilateral Working Group is expected to reconvene in 2003 to review progress in implementing these recommendations and to report on results achieved in combating trade-based money laundering,

## **The Hawala System**

The hawala (or hundi) alternative remittance system (sometimes also known as parallel or underground banking) continues to be a key factor in money laundering and financial crimes associated with South Asia. It is used in both the huge “underground” economies of the region and is also widely used in everyday transactions involving legitimate commerce. Hawala has been called “the poor man’s banking system.” Unfortunately, criminal organizations take advantage of hawala networks to launder illegally derived proceeds or transfer funds for the financing of criminal activities. In 2001, the use of hawala was noted in terrorist financing investigations. Moreover, because of changing immigration patterns, the use of hawala is no longer confined to South Asia but has spread around the world.

Hawala operates on trust and connections. In fact “trust” is one of several meanings associated with the word hawala. Customers trust hawala operators or “hawaladars” to use their connections to facilitate money movement or more accurately transfer value around the world. The hawala money transfer system is generally much more rapid and inexpensive than the use of traditional banking institutions. Hawala transactions are often based on the trade of a commodity such as electronics or gold. Fictitious, under-or over-invoicing are often used to “balance the books.” The actual hawala records themselves provide little paper trail and often the records are written in code. Most hawala networks are based on ethnic and family ties. This facilitates the trust necessary for hawala, and also makes it very difficult for law enforcement to penetrate the networks.

Dubai in the United Arab Emirates has often surfaced as the conduit for hawala transfers involving India, Pakistan, Afghanistan, Somalia, and other countries in the region. The UAE is beginning to study possible countermeasures to hawala transactions. However, any solution must also address the underlying causes of

hawala in South Asia such as severe foreign exchange restrictions, inefficient and costly banking channels, and tax and duty policies.

### **Lawyers/Notaries, Accountants and Other Non-Financial Professionals**

United States law enforcement authorities have observed that as money laundering schemes become more complex, the perpetrators turn to the learned expertise of attorneys, accountants, consultants and agent representatives to aid them in the movement of illegal currency. These professionals, using shell corporations, nominees and fictitious records, devise elaborate paper trails to disguise the true source of illegal income.

### **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, the Euro) 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.

### **Use of Traveler's Checks to Disguise Identities**

Criminals may be using traveler's checks as a money laundering tool. Although traveler's checks can be the preferred mechanism for conducting large business transactions in some countries, the use of traveler's checks can offer the opportunity to commingle illicit funds with legitimate funds. Several major U.S. banks and traveler's check issuers have detected and reported suspicious practices involving the use of hundreds of thousands of dollars in traveler's checks per instance, often in strings of sequentially numbered thousand-dollar traveler's checks. In some cases, the payee was a numbered account in a foreign bank. Frequently the name and/or address on the purchase agreement were left blank, unverifiable, illegible, or not matching the signature name on the corresponding traveler's checks.

Mexico, Nigeria, Israel, and a number of East Asian countries have been frequently cited as the point of origin or negotiation for instruments involved in this type of activity. An example was the purchase of traveler's checks from an investment house/travel agency in Asia, where one employee of the traveler's check seller personally signed the purchase agreements for \$27 million worth of traveler's checks. When the traveler's check issuer told the seller to have the buyer sign the purchase agreement, the traveler's check seller started producing purchase agreements with many different names, but frequent similarities in handwriting.

### **Pre-paid Telephone Cards as Cover for Money Laundering**

Increased reporting on the sale of pre-paid telephone cards led to the May 2001 issuance of FinCEN's Bulletin on suspicious activity related to phone card businesses. Over 160 reports indicating suspicious financial activity were filed related to businesses involved in phone card sales. Some of the companies or businesses involved in the reported activity offer other services such as check cashing, money orders, beepers, cellular phones, faxes, lottery tickets, and travel tickets. Financial institutions in fourteen states, particularly in New York, New Jersey, Texas, California and Florida, reported this suspicious activity.

Phone card sale businesses routinely generate significant legitimate cash flow. Information reported by financial institutions shows problematic transactions suggestive of money laundering or other illicit financial activity such as large and unexplained cash flow increases or transactions structured to stay below CTR reporting requirements associated with illegitimate use of these businesses. Additionally, law enforcement information suggests the use of phone cards may be a possible mechanism to launder illicit funds. The reported dollar volumes associated with this activity range from \$300,000 to \$50 million. In one instance, a bank reported 370 cash deposits by a prepaid phone card business totaling more than \$3 million in approximately three months, exceeding the business' expected cash flow.

## **U.S. Money Laundering Countermeasures**

### *National Money Laundering Strategy*

On October 15, 1998, Congress passed the Money Laundering and Financial Crimes Strategy Act of 1998. The Act called upon the President, acting through the Secretary of the Treasury and in consultation with the Attorney General, to develop a national strategy for combating money laundering and related financial crimes. The Act called for the first national strategy to be sent to Congress in 1999, and updated annually for the following four consecutive years. The 2001 National Money Laundering Strategy was released in September 2001.

The 2001 Strategy identifies five goals: (1) focus law enforcement efforts on the prosecution of major money laundering organizations and systems; (2) measure the effectiveness of anti-money laundering efforts; (3) prevent money laundering through cooperative public-private efforts and necessary regulatory measures; (4) coordinate law enforcement efforts with state and local governments to fight money laundering throughout the United States; and (5) strengthen international cooperation to combat the global problem of money laundering.

### *Significant Priority Items*

The following are summaries of the most significant priority issues:

- **Refocus Efforts of High Intensity Financial Crime Areas (HIFCAs).** HIFCAs are special, high-risk areas or sectors where law enforcement will concentrate its resources and energy to combat money laundering. The 2001 Strategy mandated that the HIFCA task forces become operational and conduct investigations designed to result in indictments, convictions, and seizures, rather than focus primarily on intelligence gathering. Each of the six HIFCA Task Forces is now actively working cases. HIFCA Task Forces are composed of, and draw upon, all relevant federal, state, and local agencies. The Departments of Treasury and Justice jointly supervise the HIFCA Task Forces, and the 2001 Strategy primarily tasks the Federal Law Enforcement Training Center (FLETC) and Justice's Asset Forfeiture and Money Laundering Section to develop an advanced money laundering training program to enhance the HIFCA Task Forces' ability to investigate sophisticated money laundering schemes.
- **Broker-Dealers in Securities Suspicious Activity Report Reporting.** Although banks are subject to the suspicious activity reporting requirements of the Bank Secrecy Act (BSA), many non-bank financial institutions—including brokers and dealers in securities—have not been subject to the reporting provisions of the BSA. On December 31, 2001, Treasury's Financial Crimes Enforcement Network (FinCEN) issued a proposed rule that would "level the playing field" by requiring securities brokers and dealers to file suspicious activity reports in connection with customer activity that

indicates possible violations of law or regulation, including violations of the Bank Secrecy Act. The SAR broker-dealer rule closely mirrors the reporting regime currently in place for banks, and sets the SAR reporting level at \$5,000.

- **Money Service Business Suspicious Activity Report Reporting.** The Treasury Department issued final regulations, effective December 31, 2001, mandating that money transmitters, issuers, sellers, and redeemers of money orders and traveler's checks must report suspicious transactions to the Treasury Department beginning January 1, 2002. The principal focus will be to ensure that law enforcement fully utilizes reported information. The 2001 Strategy requires that law enforcement agencies using SAR information evaluate the usefulness of this information and provide FinCEN with operational feedback. FinCEN will use the feedback to increase the usefulness of reported information to law enforcement agencies.
- **Reduce the threat of money laundering posed by foreign correspondent banks.** On December 20, 2001, Treasury issued a proposed rule to codify interim guidance Treasury issued in November pursuant to the USA PATRIOT Act concerning how financial institutions could make sure that their correspondent accounts were not being used to move proceeds directly or indirectly from foreign "shell banks." For purposes of the proposed rule, foreign shell banks are defined, with a limited exception, as foreign banks without a physical presence in any country. The proposed rule also covers securities brokers and dealers, and broadens the existing definition of correspondent accounts to include "any account (broker-dealers) provide in the U.S. to a foreign bank that permits the foreign bank to engage in securities transactions, funds transfers, or other financial transactions through that account." The proposed rule also requires banks that offer correspondent accounts to foreign banks to require those banks to appoint an agent with authority to accept service of legal process for information relating to the correspondent account in the U.S. and keep records of the identity of the agent as well as the owner of the foreign bank.
- **International.** The Strategy seeks to remove all barriers that inhibit international cooperation, and called on appropriate U.S. Government officials to review extradition and mutual legal assistance relationships that are key for money laundering investigations and prosecutions and to recommend that coverage of money laundering offenses be considered an important objective in assessing U.S. Government priorities for future treaty negotiations. The 2001 Strategy sets as its goal increased use of the international asset-sharing program, which provides an incentive for international cooperation. Further, the Departments of the Treasury and Justice will explore the feasibility of establishing model international financial task forces to plan and coordinate significant multilateral money laundering investigations. The United States will continue to actively participate within the Financial Action Task Force (FATF), and seek to revise the Forty Recommendations to reflect new issues and concerns.
- **Evaluation and Accountability.** The 2001 Strategy seeks to institutionalize systems to measure the success of money laundering enforcement efforts and results to provide law enforcement with an accurate picture of its anti-money laundering programs. Measured evaluation will allow for the identification of money laundering "hot spots," indicate areas where law enforcement must enhance or prioritize its investigations and prosecutions, and allow law enforcement to articulate measurable goals. Treasury has convened a high-level working group to consider the establishment of standardized reporting procedures for each federal law enforcement agency involved in money laundering investigations and prosecutions.

- **Legislation.** An aggressive anti-money laundering attack requires that law enforcement utilize all available statutory authorities to dismantle large-scale criminal enterprises. Treasury, the White House, and Department of Justice worked closely with the Congress on a variety of anti-money laundering proposals that were contained in Title III of the USA PATRIOT Act, which Congress passed and the President signed into law in October 2001. The anti-money laundering provisions of the USA PATRIOT Act addressed various deficiencies in current money laundering laws and enhanced criminal money laundering enforcement and asset forfeiture capabilities. A number of interagency task forces are working to implement the various provisions of the USA PATRIOT Act.
- **Financial Crime-Free Communities Support Program.** The 2000 Strategy announced the launching of the Financial Crime-Free Communities Support (C-FIC) Program. The C-FIC program is the result of a legislative mandate to establish a federal grant program to provide seed capital for emerging state and local anti-money laundering enforcement efforts. The Bureau of Justice Assistance (BJA) assists the Treasury Department in administering this grant program. In September 2001 Treasury awarded \$2.1 million in grant funds to a variety of programs proposed by eight state and local law enforcement agencies in New York, Illinois, Wisconsin, Iowa, Washington, and California. The 2001 Strategy calls for Treasury to conduct evaluations of existing C-FIC grant recipients to assess their progress.

### *The USA PATRIOT Act of 2001*

Prior to the September 11 terrorist attacks, efforts to enhance the federal government's ability to combat international money laundering were already underway. The Senate and House were considering money laundering legislation, and the Bush Administration was hinting at increasing prosecutorial and regulatory resources to fight significant money laundering organizations and complicit financial institutions. The events of September 11 launched anti-money laundering, as well as terrorist financing initiatives, as top priorities in the war on terrorism.

On October 26, 2001 the President signed into law the Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, as Title III of the "United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2001." The most significant legislation of its kind since 1970, Title III contains comprehensive regulatory and enforcement provisions that will impact financial institutions' daily operations. The legislation both systematically targets known risks to the financial system as well as provides the U.S. Government with new authority and tools to identify and eliminate specific problems as they arise.

Key provisions of Title III include:

**Section 311** provides the United States with authority to apply graduated, proportionate measures against a foreign jurisdiction, foreign financial institution, type of transaction, or account that the Secretary of the Treasury determines to be a "primary money laundering concern." (A finding by the Secretary of the Treasury pursuant to this section that a jurisdiction is of "primary money laundering concern" is wholly distinct from and should not be confused with the INCSR characterization of countries or jurisdictions as being of "primary money laundering concern") The five special measures include such steps as requiring domestic financial institutions to keep records and report certain transactions, take reasonable steps to obtain beneficial ownership information, obtain information about certain types of accounts, including correspondent accounts, and, if necessary terminate such accounts. The designation of primary money laundering concerns, the selection of particular special measures, and the imposition of certain of the special measures, require consultation with various agencies and departments including in all cases the Department of State. Treasury will issue regulations defining key terms.

**Section 312** requires financial institutions that establish, maintain, administer, or manage a private banking account or a correspondent account for a non-U.S. person to apply appropriate, specific and, where necessary, enhanced due diligence policies, procedures and controls reasonably designed to detect and report instances of money laundering through those accounts. The provision imposes additional requirements for such accounts held by foreign banks operating under offshore licenses or licenses from jurisdictions designated as non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the United States is a member, with which designation the United States representative to the group or organization concurs, or by the Secretary of the Treasury as warranting special measures due to money laundering concerns. Treasury will issue regulations further defining the due diligence required.

**Section 313** generally prohibits U.S. financial institutions from maintaining a correspondent account in the United States for a foreign shell bank, that is, a foreign bank that does not have a physical presence in any country. The provision also generally requires financial institutions to take reasonable steps to ensure that foreign banks with correspondent accounts do not use those accounts to indirectly provide banking services to a foreign shell bank. Limited exceptions apply to both requirements. Treasury has issued interim guidance and a proposed rule outlining methods for financial institutions to comply with this provision.

**Section 314** requires Treasury to adopt regulations encouraging information sharing between law enforcement, regulators, and financial institutions concerning known or suspected terrorists or money launderers. Also permits financial institutions, after providing notice to Treasury, to share information with each other regarding suspected terrorists or money launderers.

**Section 315** adds additional predicate offenses to the U.S. money laundering statutes, including foreign official corruption and certain foreign smuggling and export control violations.

**Section 319** authorizes the seizure of funds held by foreign banks in U.S. correspondent accounts to satisfy certain types of seizure orders against funds deposited in the foreign bank, regardless of whether those funds can be traced to the foreign bank's correspondent account in the United States. Section 319 also allows the Secretary of the Treasury or the Attorney General to subpoena records of a foreign bank that maintains a correspondent account in the United States. The subpoena can request any records relating to the account, including records located in a foreign country relating to the deposit of funds into the foreign bank. To facilitate the service of subpoenas, foreign banks must designate a registered agent in the U.S. to accept service, and U.S. financial institutions maintaining such accounts must keep records of the identity of the agent as well as the owners of the foreign bank. If the foreign bank fails to comply with or contest the subpoena, the Secretary or the Attorney General can order the U.S. financial institution to close the correspondent account. Treasury has issued interim guidance and a proposed rule concerning the record-keeping requirements.

**Section 325** permits but does not require the Secretary of the Treasury to promulgate regulations governing maintenance of concentration accounts, that is, accounts used to aggregate funds from different clients' accounts for various transactions. If funds are commingled and not linked to individual clients, this presents a money laundering risk.

**Section 326** requires the Secretary of the Treasury to issue regulations establishing minimum standards for the identification of customers of financial institutions during the opening of an account. The provision also requires the Secretary to report to Congress on ways to enable domestic financial institutions to confirm the identity of foreign nationals who seek to open accounts.

**Section 352** requires all financial institutions to have an anti-money laundering program by April 24, 2002. The provision permits the Secretary of the Treasury to issue regulations prescribing minimum standards for the programs and to exempt certain financial institutions from the requirement. The Secretary must also issue regulations evaluating whether the requirement of an anti-money laundering program is commensurate with the size, location, and activities of the financial institution to which it applies.

**Section 356** requires the Secretary of the Treasury to issue a final rule requiring brokers and dealers to file SARs by July 1, 2002. Treasury issued a proposed rule as directed on December 31, 2001. The provision also authorizes the Secretary to require futures commission merchants and other commodities investment advisors to file SARs. Finally, it requires Treasury to draft a report along with the SEC and the CFTC recommending ways to apply the Bank Secrecy Act to investment companies.

**Section 358** includes three provisions facilitating the sharing of information to combat international terrorism:

*(1) Permits the sharing of Bank Secrecy Act material with intelligence agencies for intelligence or counterintelligence activities to protect against international terrorism.*

*(2) Amends the Right to Financial Privacy Act to permit greater government access to consumer financial information held by financial institutions when the inquiry relates to international terrorism.*

*(3) Amends the Fair Credit Reporting Act to permit greater governmental access to credit reports when the inquiry relates to international terrorism.*

**Section 359** brings informal banking systems, such as hawalas, under the Bank Secrecy Act.

**Section 362** requires the Secretary of the Treasury to establish a secure network in FinCEN to allow financial institutions to file Bank Secrecy Act reports electronically through the secure network and provide financial institutions with alerts regarding suspicious activities.

**Section 365** requires non-financial businesses to file transaction reports with FinCEN for all transactions involving the receipt of more than \$10,000 in coins or currency. Treasury issued an interim final rule in December implementing this provision. Because this rule is nearly identical to the reporting provision of the Internal Revenue Code, Treasury's rule permits the filing of a single form to satisfy both reporting requirements.

**Section 371** criminalizes the smuggling of more than \$10,000 in bulk currency across U.S. borders, and makes the property involved in the offense subject to civil and criminal forfeiture.

**Section 1006** amends the Immigration and Nationality Act to exclude aliens engaged or seeking to engage in money laundering as described in U.S. law, or those that aid, abet, assist or collude in such activity. This section also requires the Secretary of State to establish a watch list identifying persons worldwide who are known or suspected of money laundering. In developing the required watch list, the State Department consulted with the CIA and relevant offices within the Departments of Justice and Treasury. In January 2002, the Secretary of State certified to the Congress that such a list had been put into place.

## *Enforcement Cases*

### **Black Market Peso Exchange: Operation Broker II**

An investigation conducted by the Colombian Departamento de Investigaciones (DAS) with DEA targeted a Colombian money laundering organization connected to the Colon Free Zone, Panama. This organization was allegedly involved in the black market peso exchange through importation of precious metal and jewels into Colombia in exchange for drug related proceeds.

On February 1, 2001, acting on DEA information, the DAS arrested four pilots and seized two airplanes in of Medellin, Colombia, upon their arrival from Panama. A search of the aircraft revealed approximately \$600,000 worth of gold and silver concealed within the planes.

On February 19, 2001, the DAS conducted a roundup of defendants implicated in money laundering violations as a result of this investigation. Twenty-one persons were arrested with seizures of two additional airplanes, approximately \$100,000 in currency, \$110,000 worth of jewelry and 12 weapons.

## **Asset Forfeiture: First Application of the Patriot Act-Seizing Funds of Foreign Bank Through Its Correspondent Bank in the United States**

On December 18, 2001, the United States Postal Service seized \$1,637,574.21 in connection with the prosecution of James R. Gibson and Marjorie Gibson on fraud and money laundering charges. This seizure, together with a related seizure of \$54,000 in November, resulted from the first successful application of new authority under Section 319(a) of the USA PATRIOT Act (18 U.S.C. §981(k)) to seize for forfeiture funds a foreign bank has on deposit in a correspondent account at a financial institution in the United States in order to satisfy a seizure order against funds held on deposit in the bank abroad.

Gibson's criminal scheme involved the diversion of approximately \$37 million from structured settlement agreements for roughly 150 victims, including widows, orphans and persons in need of expensive, ongoing medical care. Gibson and his wife fled to Belize with \$2.4 million and a luxury yacht. Despite repeated efforts, the USG had previously been unable to get custody of assets Gibson had removed to Belize due to local statutory limitations on the ability of the Government of Belize to provide international assistance to the United States. The decision to use Section 319(a) authority by the Department of Justice occurred after inquiries to the Departments of Treasury and State.

## **Cocaine Trafficking Ring/Cash Smuggling**

Sixteen members of a cocaine trafficking ring were charged in a nine-count indictment for conspiracy, possession and distribution of controlled substances and money laundering as a result of a criminal investigation by the Internal Revenue Service. According to the indictment, the operation was as follows:

The group participated in the distribution of narcotics from Los Angeles to Milwaukee and Chicago. The flow of cash moved from Chicago and Milwaukee back to Los Angeles.

The organization used couriers to transport the cash to Los Angeles. The cash was packed within clothing and hidden in the couriers' luggage. Often the accumulated cash was concealed in commercial storage sheds in the Chicago area before it was spent on personal items.

To facilitate the cocaine distribution and to conceal the nature, source and ownership of the narcotics proceeds, the group employed several methods to disguise the financial transactions: obtaining false driver's licenses; using nominee names to purchase personal items; creating false loan documents; and using artificial business names.

Several members of the group used fake business names to obtain corporate credit cards. Automobiles were purchased and financed under false identities. Several individuals and couriers applied for and received frequent flyer benefit cards under the false identities.

Cash parcels, containing more than \$50,000, were also mailed through the U.S. Postal Service with the bulk cash transported exceeding \$6 million dollars.

After two years of investigation, the government seized over \$1 million dollars, charged the 16 individuals and was seeking forfeiture of an additional \$5 million in assets. The lead defendant later admitted a leading role and was sentenced to 25 years in prison and an additional 5 years of supervised release.

## **Charitable Fund Raising Activity Used to Support Foreign Terrorism**

Solicitors at the Los Angeles International Airport ("LAX") asked travelers and others to donate money to the Committee for Human Rights ("CHR"), an entity which the solicitors are alleged to have known was a front organization for the Mujahedin-e Khalq ("MEK"), a designated foreign terrorist organization. Based on the results of a federal investigation, it is believed that the funds were collected on behalf of and for the purpose of financing the activities of the MEK. Seven individuals, including those who are believed to have knowingly donated and raised money for the MEK, were charged in a 59-count indictment with



providing and conspiring to provide material support or resources to a foreign terrorist organization in violation of Title 18 U.S.C. §2339B(a)(1).

The indictment alleges that:

- One defendant coordinated the fundraising activities for the MEK.
- Several defendants solicited donations to the CHR, a front organization for the MEK, at LAX, knowing and intending that those donated funds would go to the MEK.
- Other defendants donated money to the MEK.
- One defendant wire transferred money from a CHR bank account to bank accounts in Turkey for the benefit of the MEK.
- Several defendants participated in conference calls during which fundraising for the MEK was discussed. During one such conference call with an MEK leader, several defendants learned that the MEK had been designated as a foreign terrorist organization and were nonetheless instructed to and did continue to raise funds for the MEK.

The trial in this matter is scheduled to commence on May 28, 2002.

## **Illegal Casa de Cambio Lauanders More than \$5 Million**

In January 1999, the Financial Crimes Division (FCD) of the Texas Office of Attorney General (OAG) initiated an investigation into money laundering allegations based on information received from a Suspicious Activity Report (SAR) filed by a Texas bank. This investigation centered on the operation of an illegal casa de cambio in Dallas and Kaufman Counties, Texas. The subjects of the investigation allegedly operated an illegal currency exchange business in violation of the Texas Financial Code, a third degree felony.

Currency exchange and transmission businesses like casas de cambio may be used by criminals to launder funds in connection with exchanging U.S. dollars for currencies of other countries prior to the funds being transmitted. Money orders in U.S. dollars that are sent to other countries can be difficult to redeem. Many currency exchange and transmission businesses are not licensed to conduct wire transmissions, as is required in many states.

Texas OAG, FCD, researched Bank Secrecy Act reports and located a total of 115 Currency Transaction Reports (CTRs), 14 Reports of International Transportation of Currency or Monetary Instruments (CMIRs), two Currency Transaction Reports by Casino (CTRCs) and 11 Suspicious Activity Reports (SARs). The documents helped the investigator by providing specific banking transactions and account information. That information was added to search warrants to establish probable cause and presented to a state grand jury.

The investigation concluded that money orders were received from various senders across the U.S. at the home addresses or post office boxes of the subject. According to the investigation, the subject then deposited the money orders into one or more local bank accounts and the banks were then instructed to wire transfer the funds to another out-of-state bank. Information gathered through the use of search warrants indicated that from August 1998 through March 1999, banking activity by the casa de cambio included deposits of \$5,593,185 and wire transmissions of \$5,122,460.

## **SAR Filing Leads to Identification of Elaborate Fraud Schemes**

A multi-agency investigation, led by the U.S. Customs Service, of several subjects allegedly engaged in a fraud scheme, in which 5,000 investors were defrauded of \$67 million, was aided by the filing of a Suspicious Activity Report by a financial institution in Hawaii. According to investigators, proceeds of the

scheme were deposited into numerous accounts at various business locations in Hawaii and then wire transferred to offshore accounts in Antigua, Bahamas and Vanuatu. Investors were told that their money would be invested with the Cayman Islands Government, which would pay the principals 20 percent interest per week. The principals, in turn, promised a return of 8 percent per week, plus 3 percent referral fee for investors who enrolled new investors. The investment was to run on a 13-week cycle. In reality, there was no such investment with the Cayman Government, and the defendants kept substantial profits.

One of the defendants deposited \$100,000 that was subsequently wire transferred to Ireland. The cash consisted of \$95,000 in one hundred dollar bills and \$5,000 in twenty dollar bills. The customer represented himself as an investment consultant and a self-employed educational systems marketer. The customer provided bank officials with useful identification documents, and even inquired of bank employees if they wanted to invest with him promising to pay them a high rate of return. The transaction indicated that the customer was working as a middle person to hide illegitimate income from investors who may have been under his control.

Thus far \$1,473,536 has been seized. One defendant pled guilty to six counts of money laundering, mail fraud, wire fraud, conspiracy to launder monetary instruments, and conspiracy to defraud the United States. Six additional defendants were named in a 100-count indictment charging them with mail fraud, wire fraud, money laundering, structuring, and conspiracy.

## **Bilateral Activities**

### *Training and Technical Assistance*

During 2001, a number of U.S. law enforcement and regulatory agencies provided training and technical assistance 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, investigate, and prosecute money laundering, financial crimes, and related criminal activity. Courses have been provided in the U.S. as well as in the jurisdictions where the programs are targeted.

### *Department of State*

The Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) developed a \$2.7 million program for fiscal year 2001 to provide 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, Treasury Department component agencies, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve, and non-government organizations offered law enforcement, regulatory and criminal justice programs worldwide.

During 2001, INL funded over 26 programs to combat international financial crimes and money laundering in 25 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, funds were made available for intermittent posting of financial advisors at selected overseas locations. These advisors work directly with host governments to assist in the creation, implementation, and enforcement of anti-money laundering and financial crime legislation. Further, several federal agencies were provided funding to conduct multi-agency financial crime training assessments and develop specialized training in specific jurisdictions worldwide to combat money laundering.

INL continues to fund the Caribbean Anti-Money Laundering Programme (CALP) along with funding from the European Union and the Government of the United Kingdom. The objectives of CALP are to reduce the incidence of the laundering of the proceeds of all serious crime by facilitating the prevention, investigation, and prosecution of money laundering. CALP also seeks to develop a sustainable institutional capacity in the Caribbean region to address the issues related to anti-money laundering efforts at a local, regional and international level.

INL also continued funding the United Nations Global Program Against Money Laundering (GPML). In addition to sponsoring money laundering conferences and providing short-term training courses, the GPML instituted a unique longer-term technical assistance initiative through its mentoring program. The mentoring program provides advisors on a year-long basis to specific countries or regions. In 2001, GPML mentors in the Caribbean assisted the Bahamas and Barbados in constructing a viable financial intelligence unit. A GPML mentor also provided advice on money laundering and asset forfeiture legislation to Antigua and Barbuda. INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2000, support was furnished to the Asia/Pacific Group on Money Laundering, the Council of Europe PC-R—EV, CFATF, and the FATF. INL also provided financial support to the evolving Eastern and South African Anti-Money Laundering Group and to GAFISUD, the FATF-like body in South America.

As in previous years, INL training programs continue to focus on an interagency approach and on bringing together, where possible, foreign law enforcement, judicial and central bank authorities in assessments and training programs. This allows for an extensive dialogue and exchange of information. This approach has been used successfully in 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 (ILEAs).

## *International Law Enforcement Academies (ILEAs)*

The Department of State's International Law Enforcement Academies (ILEAs) are an entirely different concept in the area of international assistance programs. These academies offer a core law enforcement management program for mid-level officials in the police and criminal justice services of strategic countries throughout the world. The ILEAs will develop an extensive network of alumni, who will become the leaders and decision-makers in their respective countries, to exchange information with their U.S. counterparts and assist in transnational investigations. The Department of State works with the Departments of Justice and Treasury, and with foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained over 8000 officials from 50 countries. ILEA expenditures for FY 2002 are budgeted at \$19.5 million.

### **Europe**

ILEA Budapest (Hungary) opened in 1995 to provide assistance to the Newly Independent States (NIS) of the former Soviet Union and Eastern European countries mainly former members of the Warsaw Pact. Trainers from the United States, Hungary, Canada, Germany, Great Britain, Holland, Ireland, Italy, Russia, INTERPOL and the Council of Europe provide instruction.

### **Asia**

ILEA Bangkok (Thailand) opened in March 1999. The curriculum and structure of this Academy is similar to Budapest, except for the shorter duration of the core course and an added emphasis in narcotics matters. Participation is opened to members of the Association of South East Asian Nations and the PRC. Trainers from the United States, Thailand, Japan, Holland, Australia and Hong Kong provide instruction.

### **Africa**

ILEA Gaborone (Botswana) opened in September 2001. Its overall instructional format is similar to Budapest and Bangkok, but adjusted to suit the needs of the region. Participation is opened to members of Southern African Development Community with expectations of future expansion to other countries in sub-Saharan Africa.

### **Global**

ILEA Roswell (New Mexico) opened in September 2001. It offers a curriculum similar to that of a Criminal Justice university. The courses have been designed and are taught by academicians, for graduates of the regional ILEAs. This Academy is unique in its format and composition, with an academic focus targeted to a worldwide audience.

### **Latin America**

ILEA South 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 1997 at a temporary site in Panama. All activities of this Academy have been temporarily suspended, pending a review to determine its permanent location.

The following summary provides a glimpse of training activities undertaken in 2001 by U.S. law enforcement agencies.

### ***Board of Governors of the Federal Reserve System***

The Federal Reserve has a long-standing commitment to combating money laundering and ensuring compliance with the Bank Secrecy Act and related suspicious activity reporting requirements by the domestic and foreign banking organizations that it supervises. Federal Reserve staff has provided training in anti-money laundering procedures to foreign law enforcement officials and central bank supervisory personnel in several jurisdictions each year. Some examples from 2001 include: Argentina, Bahamas, Chile, Costa Rica, Dominican Republic, Ecuador, Guatemala, India and Russia.

In addition, training was provided by Federal Reserve staff to U.S. law enforcement agencies including programs at the U.S. Department of the Treasury's Federal Law Enforcement Training Center and at the FBI Academy, as well as regular and frequent training for the U.S. Drug Enforcement Administration, U.S. Secret Service and the U.S. Customs Service.

### ***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's 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 relationships 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 foreign drug law enforcement and money-laundering specialists.

DEA's primary focus for its training courses includes specialized training for foreign 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 from various areas of the U.S. Government participate, including from the Department of Justice, the U.S. Customs Service, the U.S. Marshal Service, Board of Governors of the Federal Reserve 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 the host country. In 2001, training was conducted in Canada, the Dominican Republic and India. In addition, a regional Asset Forfeiture and Money laundering Seminar was conducted with State Department funds in Latvia with attendees from Latvia, Estonia, Finland and Lithuania.

### *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, assistance in the establishment of comprehensive anti-money laundering regimes, 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 to provide training and technical assistance to various jurisdictions for establishing and operating their own FIUs.

On March 26, 2001, legislators from Macau concerned with gaming issues and money laundering visited FinCEN to discuss U.S. gaming legislation.

In April 2001, FinCEN hosted a delegation of high-level economic officers from Russia for a financial analysis seminar. The seminar included courses in financial investigation and analysis, the U.S. anti-money laundering program, asset forfeiture, and money laundering prosecutions. Additionally, the Russian delegation briefed FinCEN on its country's efforts in combating financial crime. The intent of the program was to provide the delegation with a clearer understanding of the requirements of current anti-money laundering international standards and to develop an understanding of the political climate and legislative processes in its country.

In May 2001, FinCEN participated in a weeklong anti-money laundering seminar at the International Law Enforcement Academy (ILEA) in Budapest, Hungary. The seminar was sponsored by DOJ's Office of Overseas Prosecutorial Development, Assistance and Training. FinCEN gave presentations on FIU development, financial secrecy, and international anti-money laundering initiatives to the audience of 30 senior-level law enforcement, judicial, regulatory, and parliamentary officials from five Eastern European countries.

From May 14-18, 2001, FinCEN hosted a training seminar for members of the FIUs from El Salvador, Paraguay, Colombia, and Panama. The seminar included courses on data analysis, report writing, analytical software, and financial investigation and analysis, asset forfeiture, and money laundering prosecutions. Additionally, the delegation provided briefings to FinCEN and the other seminar participants on its country's efforts in combating financial crime.

On May 28-30, 2001, FinCEN visited the Anti-Money Laundering and Royal Thai Offices to conduct a financial intelligence unit and technology needs assessment. Discussions with the United Nations office in Bangkok also took place concerning development of a training and technical assistance CD-ROM.

During June 2001, a FinCEN delegation visited the Republic of the Marshall Islands to conduct a financial intelligence unit assessment. FinCEN also visited the newly established financial intelligence unit in Poland. Discussions with government officials included a review of recently enacted money laundering legislation and training and technical assistance needs.

In July 2001, FinCEN participated in an interagency money laundering training assessment of Romania's financial intelligence unit and provided financial analysis, investigative and regulatory training to members of the Bulgarian financial intelligence unit.

During September 2001, FinCEN attended a workshop on money laundering in Brussels, Belgium, sponsored by the Egmont Group of FIUs. The topic of the workshop was money transmitters and how they may be used to launder money. FinCEN did a presentation on U.S. efforts to regulate money service businesses and hosted a delegation from the Republic of Korea to discuss the passage of new anti-money laundering legislation.

On October 10-12, 2001, FinCEN participated in a University of Lima's seminar "Organized Crime and Money Laundering" along with other U.S. officials from Drug Enforcement Agency, officials of the Organization of American States, and Peruvian Government officials. The U.S. team also met with Peruvian officials to discuss proposed legislation to establish a financial analysis unit.

FinCEN sponsored a basic analytical training course in Nassau, Bahamas October 15-18, 2001. The purpose of the training was to provide analytical training to recently developed and established financial intelligence units (FIUs) in the Caribbean region. The invited analysts were from the FIUs of Aruba, Bahamas, Jamaica, Netherlands-Antilles, and Trinidad and Tobago. The seminar included courses in financial investigation and analysis, the U.S. anti-money laundering program, analytical software, asset forfeiture, and money laundering prosecutions.

During the week of October 22-26, FinCEN hosted four analysts of the Colombian FIU, the Unidad de Informacion y Analisis Financiero (UIAF) for a financial analysis seminar. The seminar included courses in the analytic process of problem definition, data extraction, analysis, synthesis, and hypothesis, financial investigations, the U.S. anti-money laundering program, the analytical software, asset forfeiture, and money laundering prosecutions.

On November 1, 2001, FinCEN hosted a seminar presented by the Government of Colombia's UIAF wherein Colombia shared its experience and techniques in tracking terrorist financial activities. United States Government investigators, prosecutors and analysts attended the seminar.

On November 9, 2001, FinCEN hosted eight high-level Indonesian officials, led by the Director General, Indonesian Department of Justice. The delegation was interested in information on money laundering, customs, and international financial institutions related to money laundering and anti-corruption efforts.

On November 12-16, 2001, FinCEN participated in a regional workshop on Money Laundering and Other Financial Crimes sponsored by the West African Institute for Financial and Economic Management in Gambia, West Africa. The workshop was attended by delegations from Nigeria, Liberia, Sierra Leone, Gambia, and Ghana.

On November 19, 2001 a Memorandum of Intent Concerning Technical and Other Assistance for an Effective Philippine Anti-Money Laundering Regime was signed by Treasury Secretary O'Neill and Philippine Finance Minister Camacho and Central Bank Governor Buenaventura. One of the main purposes of the Memorandum is to assist the Philippine Government to develop an anti-money laundering program that complies with international money laundering standards. FinCEN has developed an action plan that has the overall objective of providing the government of the Philippines with the means to acquire the capabilities to develop and operate a financial intelligence unit. The plan is being implemented.

In December 2001, FinCEN hosted a delegation from Russia that included the head of the newly formed Russian financial intelligence unit and Deputy Chairman of the Central Bank of Russia. Discussions included their recent anti-money laundering initiatives and training and technical needs for their FIU.

Additionally, FinCEN provided financial intelligence unit and money laundering briefings to visitors from a number of jurisdictions including Argentina, Barbados, Brazil, Bulgaria, Chile, China, Colombia, Cyprus, Denmark, Dominican Republic, Estonia, Finland, Germany, Greece, Guatemala, Haiti, India, Indonesia,

Isle of Man, Italy, Japan, Jersey, Kazakhstan, Latvia, Lebanon, Lithuania, Macau, Marshall Islands, Mexico, Netherlands, Norway, Philippines, Poland, Romania, Russia, South Africa, South Korea, Spain, St. Kitts and Nevis, St. Vincent and Grenadines, Sweden, Tonga, Trinidad and Tobago, Turkey, and United Arab Emirates.

## *Internal Revenue Service*

The Internal Revenue Service (IRS), Criminal Investigation (CI) International Training Program is one segment of the IRS International Strategy. This IRS program focuses training on investigative techniques courses involving financial crime and money laundering. The goal is to provide assistance to foreign governments in establishing or enhancing money laundering, criminal tax and asset forfeiture laws. The training program also 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 courses are developed jointly with other law enforcement agencies to address specific needs.

Training led by IRS during 2001 included:

- Basic International Financial Fraud Training in Glynco, GA for participants from Antigua, Barbados, Dominica, Grenada, Hong Kong, St. Kitts and Nevis, St. Lucia, Kazakhstan, Korea, Saudi Arabia, St. Vincent and the Grenadines, and Singapore.
- Financial Investigative Training in Budapest, Hungary; Montevideo, Uruguay; and Vilnius, Lithuania.
- Complex Financial Investigations training in Bangkok, Thailand (taught jointly with the U.S. Customs Service).

IRS provided instruction in the core course program at ILEA Budapest and ILEA Bangkok. IRS also provided instructor assistance for a DEA money laundering class in San Jose, Costa Rica.

## *Department of Justice*

The Overseas Prosecutor Development and Training Section (OPDAT) of the Criminal Division is the primary source for the training of foreign prosecutors, judges and law enforcement for the Department of Justice. During 2001, OPDAT sponsored 13 seminars throughout the world that dealt in whole or in part with money laundering and asset forfeiture issues. Approximately 650 students received training in transnational money laundering, international asset forfeiture and asset sharing. Additionally, the Asset Forfeiture and Money Laundering Section conducted an Asset Forfeiture and Money Laundering conference in Bangkok, Thailand, which included approximately 10 prosecutors and law enforcement officials from Australia, Canada, Chinese Taiwan, Hong Kong, Indonesia, Malaysia, Marshall Islands, New Zealand, Samoa, Singapore, and Thailand.

## *Office of the Comptroller of the Currency*

The Office of the Comptroller of the Currency (OCC) was involved with several anti-money laundering training initiatives during 2001. The following are highlights:

- Developed an Anti-Money Laundering School for Foreign Supervisors designed to train participants to recognize the potential money laundering risks confronting financial institutions, assess the adequacy of an institution's policies, procedures and practices in complying with anti-money laundering regulations and programs. The course heightens awareness of how financial institutions are used in money laundering operations through

hands-on training using case studies based on actual examination results. Twenty-three banking supervisors from Argentina, Bahamas, Belize, Cook Islands, Cayman Islands, China, Israel, Mexico, Netherlands, Panama, Peru, South Africa, Switzerland, Thailand, Turkey and Yugoslavia attended the first session.

- Participated in a State Department sponsored joint U.S. government agency anti-money laundering training program in the UAE for government officials, banking regulators and representatives from the industry.
- Instructed the Asian Pacific Economic Coordination (APEC) anti-money laundering segment of their school held in the Philippines.

### *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 programs. Drawing on its expertise in undercover drug money laundering as well as traditional money laundering investigations, the USCS strives to impart its considerable experience to law enforcement, regulatory, and banking officials identified by INL. As host or co-host with numerous other federal agencies, the USCS conducts anti-money laundering and financial crime seminars domestically and abroad.

The USCS training seminars are designed to be flexible so as to be useful to policy makers, law enforcement personnel, and management officials of financial institutions by providing the necessary skills to recognize and combat money laundering. These training programs address trends and current developments concerning international banking and money laundering, focusing on issues relating to transnational money laundering. They cover the use of free trade zones, offshore banking practices, international money flows, bulk-cash and electronic funds transfers, and capital flight. The courses cover investigative and prosecution techniques and approaches, bilateral assistance and cooperation in international cases, and roles of banking and currency control regulations and regulatory enforcement authorities in transnational money laundering cases.

### *United States Department of Treasury Office of Technical Assistance (OTA)*

Treasury's Office of Technical Assistance is located within the Office of the Assistant Secretary for International Affairs. The office delivers interactive, advisor-based assistance to senior level representatives in various ministries and central banks in the areas of tax reform, government debt issuance and management, budget policy and management, financial institution reform, and more recently, law enforcement reforms related to money laundering and other financial crimes.

In 1997, the Enforcement Program was added to Treasury's advisory office. It is a long-term, advisor-based program developed out of concern that financial crime, corruption, organized criminal enterprises, and other criminal activities were undermining economic reforms promoted by the Department of the Treasury. The Enforcement Program essentially focuses on the development of legal foundations, policies, and organizations in three areas: (1) money laundering, terrorist financing and other financial crimes, (2) organized crime and corruption, and (3) the reorganization of law enforcement and financial entities in developing economies to help them prevent, detect, investigate and prosecute complex domestic and international financial crime. The Enforcement Program relies on intermittent advisory trips to deliver its technical assistance. It works with embassy staff and host country clients on long-term projects designed to promote systemic changes and new organizational structures. The program receives much of its funding and outside guidance from the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL). Originally operating in only two countries using Treasury funds, the



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last three years have seen a rapid expansion of the program. The program has now given technical assistance to over a dozen countries throughout the world. The demands on the program and its funding have significantly increased in the wake of the events of September 11, 2001.

The Enforcement Program is comprised of a group of approximately 40 highly experienced advisors with backgrounds in various areas of investigating, prosecuting or regulating financial and economic crimes such as money laundering, terrorist financing, white-collar crime, organized crime, securities fraud, internal affairs and corruption, criminal law, and organization administration. Most advisors have previously held responsible positions with U.S. law enforcement and regulatory organizations or as prosecutors with the Department of Justice. In addition, the office cooperates closely in its programs with Treasury and Justice Department law enforcement components. Some of the program's recent activities and accomplishments are highlighted below:

**Armenia.** From 1997 through 2001, OTA has provided technical assistance in the areas of financial crimes, organized crime, gaming enforcement, insurance fraud, criminal tax case investigations and prosecutions. Liaison relationships were established between the Organized Crime Department of the Interior Ministry and the international law enforcement community, especially federal and state entities in the United States. The Enforcement Team hosted a visit of the Prosecutor General and the Chief of Organized Crime along with members of their staffs, to Washington, D.C. and Los Angeles to further enhance that cooperation. A Financial Crimes Working Group was established.

**Georgia.** During the last year, OTA provided advice to the Chamber of Control (the supreme audit body in Georgia) concerning organizational issues and competency testing for their employees. Preparatory work was performed with selected members of the Financial Police in order to provide technical training in criminal tax investigations. The OTA Enforcement Team initiated a program of assistance to the Procuracy General's anti-corruption unit. A plan of action to approach the development of anti-money laundering legislation has been developed by OTA.

**Bulgaria.** The OTA Enforcement Team worked in collaboration with the DOJ-ABA/CEELI program last year on a series of seminars relating to money laundering issues and including law enforcement personnel, prosecutors, legislators, and judges, along with representatives of Bulgaria's Financial Intelligence Unit (FIU). In 2002, the Enforcement Team will place a resident advisor in Sofia to work on an intensive basis with the FIU, in conjunction with the Embassy and USAID.

**Moldova.** In Moldova, the OTA Enforcement Team contributed to the drafting of a new money laundering law and its passage by the Parliament. The team is now helping the government to draft amendments that will strengthen that law. The team also developed and delivered training programs for the National Bank of Moldova and the Bankers Association of Moldova on bank examination procedures and methodologies of detecting and reporting of suspicious financial transactions. It also provided technical assistance in drafting and implementing the Ministry of Finance Tax Law on the establishment of an investigative unit.

**Russia.** Throughout 2001, the Enforcement Team worked with the OTA Banking Team in Moscow to assist the Suspicious Transactions Department of the Agency for the Restructuring of Credit Organizations (ARCO). In addition, OTA sent representatives to the MVD Academy at Nizhnij Novgorod, and the Public Service Academy at Ekaterinburg, Russia, in assisting American University's Transnational Crime and Corruption Center (TraCCC) to present three-day conferences at each of these locations.

**Kazakhstan.** OTA conducted an assessment in Kazakhstan relative to establishing a comprehensive technical assistance program. The OTA advisors worked in coordination and cooperation with the Justice Department's resident legal advisor and the embassy's INL representative. The OTA assessment was conducted at nine different Kazakh ministries involved in law enforcement, including the General Prosecutor, Finance Ministry, the Supreme Court, the Financial Police, Interior Ministry, the Police Academy, the National Security Commission, the National Bank and the Security Commission.

**Bosnia.** In January 2001, the OTA Enforcement Team visited Sarajevo to conduct a study of the Financial Police, at the request of and in cooperation with the UN Office of the High Representative (OHR) and the U.S. Embassy. The report of findings was submitted in May 2001 and adopted by the Prime Minister in July 2001. In September 2001, the Prime Minister held a meeting of his cabinet to form a task force to implement the findings of the study and set a timetable for action items to be accomplished.

**Serbia.** In March 2001, OTA initiated a USAID funded program of assistance in Serbia. OTA is working with officials in the Ministry of Finance and the Public Revenue Administration (PRA) to establish a criminal tax investigation unit. Initial assistance has included the submission of a new tax administration law designed to provide the PRA, among other things, with criminal enforcement authority and the ability to refer cases directly to the prosecutor's office. Additional assistance is underway to develop an organizational scheme for the new criminal unit, implement employee recruitment and screening criteria, establish anti-corruption measures, deliver training programs, develop investigative techniques, and design effective case selection and management practices. OTA also reviewed draft legislation intended to create a Yugoslav anti-money laundering regime comporting with international standards and offered appropriate changes to the legislative initiative. OTA also provided a training program specifically designed to enhance the forensic accounting abilities of representatives of the Yugoslavia Central Bank, the Economic Crimes Section of the Department of Criminal Investigation, the Financial Police of the Republican Revenue Service, and the Public Prosecutor's Office. This program also described the threats posed by systemic corruption and familiarized the participants with accepted international standards in the area of money laundering.

**South Africa.** The OTA Enforcement Team provided support to the South African Parliament in its drafting and review of the Financial Intelligence Center Act. In May 2001, a Senior Law Enforcement Advisor of OTA and a DOJ Asset Forfeiture Attorney met with South African Parliament staffers to assist in the review and the final drafting of South Africa's Financial Intelligence Center Act. OTA's advisor and the DOJ Attorney testified, in camera, to the Parliament's Joint Committee on the Budget and Constitutional Law regarding the proposed Financial Intelligence Center Bill.

**El Salvador.** With the inauguration of the Financial Investigation Unit (FIU) in late 2000, which was established with OTA support, the FIU was fully ready to investigate and prosecute money-laundering cases. Early in 2001, devastating earthquakes destroyed the offices of the Attorney General under whose supervision and wherein the FIU was located. OTA then arranged for members of the FIU to be trained at FinCEN. Subsequently, the Salvadoran FIU became accepted as a full member of the Egmont Group, and the FIU Director is on the Legal Working Group of that organization. OTA also helped create a High Level Working Group to address inter-agency matters relating to money laundering in the country. OTA is also working closely with the Government of El Salvador in training the Anti-Corruption and Complex Crimes Unit in the Office of the Attorney General. Joint training sessions have been given to members of the Judiciary, prosecutors from the Office of the Attorney General and the National Civilian Police relating to corruption investigations and prosecutions. OTA also advised members of the Kidnapping Unit of the National Civilian Police on investigating the financial aspects of crime.

**Peru.** OTA met with the Government of Peru to discuss proposed Anti-Money Laundering Legislation and to offer technical assistance in implementing the law. OTA, with a representative of the Treasury's Bureau of Engraving and Printing, provided guidance relating to anti-counterfeiting measures. OTA also met with a variety of representatives from the Government of Peru to discuss issues relating to the establishment of an investigative arm to aid the Central Reserve Bank in stopping the counterfeiting of currency and coins.

**Guatemala.** In May, OTA met with Embassy personnel, representatives of the Guatemalan Banking Association and the Superintendent of Banks (SIB) to discuss issues surrounding money laundering. In June, Guatemala was placed on the FATF Non-Cooperating Countries and Territories List. OTA assisted the Government of Guatemala in drafting a proposed Anti-Money Laundering Law and in August met

with representatives of the Departments of Treasury and Justice and the Government of Guatemala to review the proposed law. On October 29, 2001 the Guatemalan Legislature passed an Anti-Money Laundering Law that includes the establishment of a financial analysis unit within the SIB. OTA is providing technical assistance to the Government of Guatemala in establishing, staffing and training this unit.

**Malaysia.** OTA assisted Malaysian Government authorities when they drafted an anti-money laundering law. The law and the financial intelligence unit established by the law came into effect in January 2002.

**Thailand.** OTA provided computer hardware, software and forensic equipment to the Anti-Money Laundering Office (AMLO) and the Royal Thai Police. Along with FinCEN, State/INL, U.S. Customs, and the Federal Reserve Board, OTA traveled to Bangkok to plan future technical assistance initiatives. As a result of that trip, OTA will place a resident advisor in Bangkok in 2002 to provide intensive technical assistance to AMLO and the Royal Thai Police on anti-money laundering issues.

**Indonesia.** In June 2001, Indonesia was listed as a non-cooperating country by FATF. OTA subsequently consulted with members of the Parliament and the Justice Ministry on their draft anti-money laundering law. Following the terrorist attacks of September 11th, OTA traveled to Indonesia to meet with the Governor of the Central Bank and other senior government officials on issues of terrorist financing.

### *Treaties, Agreements, and Other Mechanisms for Information Exchange*

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. As of December 31, 2001, MLATs, which are negotiated by the Department of State in cooperation with the Department of Justice to facilitate cooperation in criminal matters, including money laundering and asset forfeiture, were in force with the following countries: Antigua and Barbuda, Argentina, Australia, Austria, the Bahamas, Barbados, Belgium, Brazil, Canada, Czech Republic, Dominica, Egypt, Estonia, France, Greece, Grenada, Hong Kong SAR, Hungary, Israel, Italy, Jamaica, Latvia, Lithuania, Luxembourg, Mexico, Morocco, the Netherlands, Panama, the Philippines, Poland, Romania, South Africa, South Korea, Spain, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Switzerland, Thailand, Trinidad and Tobago, Turkey, Ukraine, the United Kingdom, the United Kingdom with respect to the Cayman Islands (extended to Anguilla, the British Virgin Islands, Montserrat, and the Turks and Caicos Islands), and Uruguay. As of the same date, MLATs had been signed by the United States but not yet brought into force with the following countries: Belize, Colombia, Cyprus, India, Ireland, Nigeria, Russia, Sweden, and Venezuela. In 2001, the United States became a party to the Organization of American States MLAT. The United States is actively engaged in negotiating additional MLATs with countries around the world. The United States has also concluded executive agreements for cooperation in various criminal matters with China, Haiti, the Philippines, Russia and Venezuela. The United States has signed but not yet ratified the UN Convention against Transnational Organized Crime and the UN Convention for the Suppression of the Financing of Terrorism.

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 specific framework asset sharing agreements or arrangements with Canada, certain of the UK Caribbean Overseas Territories including the Cayman Islands and Anguilla, Colombia, Ecuador, Jamaica and Mexico. Many of the MLATs listed in the previous paragraph also provide authority for asset sharing.

To facilitate the ongoing exchange of information to combat money laundering, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) has fostered information exchange with other financial intelligence units (FIUs) around the globe, as well as, on a case by case basis, with law enforcement and regulatory agencies of foreign governments. In a few cases (Argentina, Australia, Belgium, France, Mexico, Panama, Slovenia, Spain and the United Kingdom), information exchange arrangements involving FinCEN and other FIUs have been reduced to writing in the form of memoranda of understanding (MOUs) or an exchange of letters. The form of an information exchange arrangement depends on the needs of the FIUs. Prior to the establishment of these types of information exchange arrangements, the United States in limited circumstances entered into cooperation agreements referred to as Financial Information Exchange Agreements (FIEAs) for the exchange of "currency transaction information" with the governments of certain Latin American countries (Colombia, Ecuador, Mexico, Paraguay, Peru and Venezuela).

A Customs Mutual Assistance Agreement (CMAA) is a bilateral international agreement between governments regarding mutual assistance between their respective Customs administrations. The CMAA is patterned after a Model Agreement of the Customs Cooperation Council (also known informally as the World Customs Organization) and reflects continuing cooperation between the United States and the other government on a wide variety of trade issues which are enforced by the respective Customs administrations, including export controls of sensitive strategic goods, money laundering, narcotics smuggling and various forms of trade fraud. Even in the absence of an agreement in force, informal cooperation often occurs.

As of December 31, 2001, the United States has Customs Mutual Assistance Agreements (CMAA) in force with the following countries or jurisdictions: Argentina (provisionally in force), Australia, Austria, Belarus, Belgium, Canada, Colombia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong SAR, Hungary, Ireland, Israel, Italy, Japan, South Korea, Latvia, Malta, Mexico, Mongolia, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Russia, Slovakia, Spain, Sweden, Ukraine, and the United Kingdom. The United States and the European Community also have a CMAA in force. There is an agreement in force between the American Institute in Taiwan (AIT) and the Taipei Economic and Cultural Representative Office (TECRO) regarding mutual assistance to be carried out by those authorities in the U.S. and on Taiwan with responsibilities in customs matters. The United States has signed CMAAs that as of the end of 2001 were not yet in force with Bulgaria, China, France (new agreement), Honduras, Kazakhstan, Lithuania, Panama, Philippines, South Africa, Turkey and Venezuela. The U.S.-Netherlands CMAA was extended to the Netherlands Antilles and Aruba in 2001 but the agreement extending coverage of the CMAA was not yet in force as of December 31, 2001.

### *Asset Sharing*

Pursuant to 18 U.S.C. § 981(i), 21 U.S.C. § 881(e)(1)(E), and 31 U.S.C. § 9703(h)(2), the United States is authorized to share assets with countries that facilitate the forfeiture of criminal proceeds. Under this authority, 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 possibility 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 that include asset forfeiture. The United States and its partners in the G-8 are currently pursuing a program to strengthen asset forfeiture and sharing regimes. To date, Canada, Cayman Islands, Hong Kong, Jersey, Switzerland, and the United Kingdom have shared forfeited assets with the United States.

From its inception in 1989 through December 2001, the international asset sharing program, administered by the Department of Justice, resulted in the forfeiture in the United States of \$389,767,187.40 of which \$171,093,680.80 was shared with foreign governments which cooperated and assisted in the investigations.

In 2001, the Department of Justice transferred forfeited proceeds to: Barbados (\$100,000); Liechtenstein (\$1,676,684.72); Switzerland (\$226,447.88); Thailand (\$19,144.00); and the United Kingdom (\$612,500). Prior recipients of shared assets (1989-2000) include: Argentina, the Bahamas, British Virgin Islands, Canada, the Cayman Islands, Colombia, Costa Rica, Ecuador, Egypt, Guatemala, Guernsey, Hungary, Isle of Man, Israel, Liechtenstein, Luxembourg, Netherlands Antilles, Paraguay, Romania, Switzerland, the United Kingdom and Venezuela.

From Financial Year 1994 through December 2001, the international asset sharing program, administered by the Department of Treasury, has shared \$21,208,571 with foreign governments, which cooperated and assisted in the investigations. In 2001, the Department of Treasury transferred forfeited proceeds to: Cayman Islands (\$14,324.00); Canada (\$640,778.00); Netherlands (\$144,220.00); and United Kingdom (\$279,443.00). Prior recipients of shared assets (FY 1994 through December 2001) include: Aruba, the Bahamas, Canada, the Cayman Islands, Dominican Republic, Egypt, Guernsey, Honduras, Jersey, Mexico, Netherlands, Nicaragua, Panama, Portugal, Qatar, Switzerland, and the United Kingdom.

## Multilateral Activities

### *Financial Action Task Force*

The Financial Action Task Force on Money Laundering (FATF), established at the G-7 Economic Summit in Paris in 1989, G-7, is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering.

The Task Force was given the responsibility of examining money laundering techniques and trends, evaluating counter-money laundering measures, and recommending measures still needed. In 1990, FATF issued 40 Recommendations to fight money laundering. These recommendations are designed to prevent proceeds of crime from being utilized in future criminal activities and from affecting legitimate economic activity. Revised in 1996 to reflect changes in money laundering trends, the recommendations are currently being revised to reflect new trends in money laundering and will include recommendations specific to combat terrorist financing.

FATF monitors members' progress in implementing anti-money laundering measures, reviews money laundering techniques and counter-measures, and promotes the adoption and implementation of anti-money laundering measures globally. In performing these activities, FATF collaborates with other international bodies.

In June 2000, membership of the FATF expanded from 26 to 29 jurisdictions<sup>1</sup> and two regional organizations, representing the major financial centers of North America, Europe and Asia. The delegations of the Task Force's members are drawn from a wide range of disciplines, including experts from the Ministries of Finance, Justice, Interior and External Affairs, financial regulatory authorities and law enforcement agencies.

FATF focused on several major initiatives during 2001:

### **Non-Cooperative Countries and Territories (NCCT)**

In response to the G-7 Finance Ministers 1998 Birmingham Summit, FATF formally created the Ad Hoc Group on Non-Cooperative Countries and Territories (NCCT). In 1999, this group developed 25 criteria

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<sup>1</sup> Argentina; Australia; Austria; Belgium; Brazil; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; Singapore; Spain; Sweden; Switzerland; Turkey; the United Kingdom and the United States, the European Commission and Gulf Co-operation Council.

by which to determine those jurisdictions undermining the global effort to combat money laundering. These criteria encompass four broad areas:

- Loopholes in financial regulations
- Obstacles raised by other regulatory requirements
- Obstacles to international cooperation
- Inadequate resources for preventing and detecting money laundering activities

FATF initiated its review process with a limited number of jurisdictions in February 2000. Based on this process, FATF identified fifteen jurisdictions as non-cooperative in the international fight against money laundering at its June 2000 Plenary.

In deciding whether a jurisdiction should be removed from the list, the FATF Plenary must be satisfied that the jurisdiction has addressed the deficiencies previously identified. The FATF relies on its collective judgment, and attaches particular importance to reforms in the area of criminal law, financial supervision, customer identification, suspicious activity reporting, and international co-operation. As necessary, legislation and regulations will need to be enacted and have come into effect before removal from the list can be considered. In addition, the FATF seeks to ensure that the jurisdiction is implementing the necessary reforms. Thus, information related to institutional arrangements, as well as the filing and utilization of suspicious activity reports, examinations of financial institutions, and the conduct of money laundering investigations, is considered.

Throughout 2001, the U.S. monitored the progress made by NCCTs to address deficiencies and implement corrective measures. In June, four jurisdictions, Bahamas, Cayman Islands, Panama and Liechtenstein were removed from the NCCT list. The U.S. has been monitoring the progress made by these countries to ensure that they are implementing their reforms in an adequate manner.

During the same year, eight new countries were added to the NCCT list, and U.S. advisories have been prepared on each. These countries are Ukraine, Nigeria, Burma, Egypt, Grenada, Guatemala, Hungary, and Indonesia.

### Revision of the FATF 40 Recommendations

The FATF 40 Recommendations represent the international standard for counter-money laundering regimes. They cover such areas as regulatory, supervisory, and criminal law, as well as international cooperation. The original 40 Recommendations were agreed upon in the early 1990s, and were updated in 1996. In 2001 FATF embarked on another review of the FATF 40 to ensure that they are up-to-date.

FATF created three working groups to address those areas considered most controversial:

**Working Group A (Customer Identification).** This working group addresses all issues relating to customer identification.

**Working Group B (Corporate Vehicles).** This working group addresses questions relating to the transparency of corporate vehicles such as corporations and trusts.

**Working Group C (Gatekeepers).** This working group addresses questions relating to the application of money laundering requirements on non-financial institutions (including lawyers, accountants, notaries, etc).

### Combating Terrorist Financing

In response to September 11, FATF expanded its mission beyond money laundering to focus its energy and expertise on the worldwide effort to combat terrorist financing. During an extraordinary plenary

meeting in Washington, DC on October 29-30, FATF agreed to the following Eight Special Recommendations on Terrorist Financing. These recommendations recommend that members:

- Take immediate steps to ratify and implement the relevant United Nations instruments.
- Criminalize the financing of terrorism, terrorist acts and terrorist organizations.
- Freeze and confiscate terrorist assets.
- Require financial institutions and other entities subject to anti-money laundering obligations to report suspicious transactions linked to terrorism.
- Provide the widest possible range of assistance to other countries' law enforcement and regulatory authorities for terrorist financing investigations.
- Impose anti-money laundering controls on alternative remittance systems.
- Require customer identification measures on international and domestic wire transfers.
- Ensure that entities, in particular non-profit organizations, cannot be misused to finance terrorism.

These Special Recommendations now represent the international standards in this area. FATF has articulated an action plan to ensure worldwide implementation of these recommendations to deny terrorists and their supporters access to the international financial system.

All FATF members completed self-evaluations against these Special Recommendations by the end of 2001. Members are required to create action plans to address Recommendations not already in place and to be in full compliance by June 2002. Non-member countries around the world will be invited to participate in this process on the same terms as FATF members. International cooperation is essential and thus FATF will closely work with all FATF-style regional bodies and international organizations in order to secure a truly global commitment to eliminate the financial frameworks that support terrorism.

## **Work with the International Financial Institutions (IFIs) to Enhance Anti-Money Laundering Efforts and Combat the Financing of Terrorism**

Money laundering and the financing of terrorism are worldwide concerns that increase the risks to domestic and global financial systems and can impact national security. In the wake of the events of September 11, the international community adopted a broad reaching and comprehensive agenda to address both. As an important part of that effort, the International Financial Institutions (IFIs) agreed to take on an enhanced role in the global fight against money laundering and the financing of terrorism.

In April 2001, the International Monetary Fund (IMF) and World Bank Executive Boards generally recognized the FATF 40 Recommendations as the international anti-money laundering standard. Later in the year in the wake of September 11, both institutions agreed to enhance their work on anti-money laundering and extend it to encompass terrorist financing. In this context, the U.S. has coordinated with the G-7, the G-20 and with other international organizations, as well as with other IMF member countries, to assist the IMF and World Bank incorporate the relevant FATF 40 Recommendations and FATF Special 8 Recommendations to Combat the Financing of Terrorism into their on-going operations. The International Monetary and Financial Committee (IMFC) of the IMF agreed to a broad action plan to curb terrorism financing in its Communiqué, dated November 17, 2001.

As part of their efforts, the IMF and World Bank have prepared a joint enhanced methodology document for the Financial Sector Assessment Program (FSAP), which increases focus on anti-money laundering and terrorist financing concerns in IMF and World Bank assessment of the vulnerabilities and risks of financial sectors. Concurrently, FATF created a working group (whose members consist of FATF countries and IFI representatives) in October 2001 with the mandate to develop a methodology document

for a separate “Reports on Observance of Standards and Codes” (ROSC) module on anti-money laundering based on the FATF 40. This would provide a comprehensive and self-contained review of a country’s anti-money laundering regime. FATF hopes to reach agreement on a ROSC methodology document, which would be sent to the IMF and World Bank for consideration by their respective Boards.

### **FATF 2001-2002 Typologies Exercise**

FATF conducted its annual typologies exercise (November 19-20, in Wellington, New Zealand) to identify current and emerging methods, trends, and patterns in money laundering and terrorist financing, and to discuss effective counter-measures. This exercise focused on terrorist financing, correspondent banking, corruption and private banking, bearer instruments and their role in money laundering, and theft of computer technology.

### **Africa FATF-Style Bodies**

Two FATF-style regional bodies are in various stages of development on the African continent:

#### ***Eastern and Southern African Anti-Money Laundering Group (ESAAMLG)***

ESAAMLG was launched at a meeting of Ministers and high-level representatives in Arusha, Tanzania, in August 1999 and held its first meeting in April 2000. Following the signature of its Memorandum of Understanding by seven jurisdictions, the ESAAMLG came into formal existence. The group will maintain its Secretariat in Dar es Salaam. Early plans call for the group to study the impact of money laundering in the region and to produce a typologies report on arms trafficking and the cash economy.

Reportedly, Kenya, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania and Uganda signed the ESAAMLG Memorandum of Understanding (MOU) and are officially considered members. At the August 2001 Plenary, held in Windhoek, Namibia, the Chairmanship of the Council of Ministers was passed from Tanzania to Namibia. An ambitious work plan was approved that includes the development of a website that will post the anti-money laundering legislation of ESAAMLG countries, a self-assessment questionnaire (that Tanzania, Uganda, Mauritius and Swaziland had completed by year’s end), and the completion of a list of National Contact Points. Subsequent to the Plenary, a five day workshop on money laundering was held in Swaziland, site of the planned August 2002 Plenary.

Work to be completed in the near future includes the appointment of an interim Executive Secretary of the Secretariat, the setting up and equipping of the Secretariat in its new offices, donated by the Government of Tanzania, which has already seconded an official to the Secretariat as well as an office secretary and accountant. ESAAMLG has also established three standing subgroups (legal, financial and law enforcement) to begin dealing in more detail with anti-money laundering issues in each of these areas. Although the Commonwealth Secretariat is providing funding to the Executive Secretariat, as is the State Department’s Bureau for International Narcotics and Law Enforcement Affairs, ESAAMLG, which will hold its next Plenary in Tanzania in March 2002, will also need to be supported by those countries that wish to become members.

#### ***Inter-Governmental Action Group against Money Laundering (GIABA)***

The first meetings of GIABA, established by the December 1999 Decision of the Heads of State and Government of ECOWAS (Economic Community of West African States), were held in Dakar, Senegal, in November 2000. Nominal members include: Benin, Cape Verde Islands, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mauritania, Mali, Niger, Nigeria, Senegal, and Togo.

The meeting adopted the statutes and explored ways of financing the GIABA. The statutes endorse the Forty Recommendations, recognize the FATF as an observer and provide for self-assessment and mutual evaluation procedures to be carried out by GIABA. While the text prepared by the experts provided for a



strong involvement of ECOWAS in the activities of GIABA, the Ministers agreed to give more autonomy to the new body. As an interim measure, Senegal offered to provide a provisional structure until the formal establishment of GIABA.

Essential issues such as the location of the headquarters and the selection of the Executive Secretary of GIABA were not discussed. However, one possibility considered in the margins of the meetings was to establish the Secretariat in Senegal (Dakar) and to appoint a representative from an English speaking country of the region (Nigeria was mentioned) as head of the Secretariat. However, no agreement has been reached on this point and GIABA is currently a non-functioning entity.

### **Asia/Pacific Group on Money Laundering**

The Asia/Pacific Group on Money Laundering (APG) is currently comprised of twenty-two members from South Asia, Southeast Asia, East Asia and the South Pacific. There are also eight observer jurisdictions and thirteen observer international and regional organizations. The purpose of the APG is to ensure the adoption, implementation and enforcement of internationally accepted anti-money laundering standards as set out in the 40 Recommendations of the Financial Action Task Force (FATF).

During 2001, the APG held one plenary meeting in Kuala Lumpur, Malaysia on May 22—24, 2001. Over 200 participants representing thirty-eight jurisdictions and thirteen international and regional organizations and bodies attended the meeting. Results included the adoption of four mutual evaluation reports conducted jointly with the Offshore Group of Banking Observers: Samoa, Taiwan, Labuan International Offshore Finance Center of Malaysia and Macau, China Members at the plenary decided that follow up on progress made against the recommendations in mutual evaluation reports would occur at each annual meeting. Members also agreed to establish a Working Group to examine practical ways to further improve regional cooperation and coordination, particularly in relation to the exchange of information and intelligence. Progress made against the Strategic Plan 1999-2001 was noted, and members agreed to prepare a new Strategic Plan 2001-2004. Finally, the need for a significant expansion of Training and Technical Assistance for APG member jurisdictions due to take place over the next 12 to 18 months was addressed. A very successful half-day seminar was held on the establishment and operation of financial intelligence units (FIUs). The First Annual Report, covering the period from the APG's inception to June 2000, was published and adopted by the APG Plenary in May 2001.

The APG held its fourth Typologies Meeting in Singapore on 17-18 October 2001. There was also a meeting of and report from the APG Working Group on Underground Banking and Alternative Remittance Systems. In addition, the APG Working Group on Information Sharing was formally established and its Terms of Reference agreed. The Working Group, which is co-chaired by the United States and Australia, will report to the APG's Annual Meeting in June 2002 and make recommendations to improve the efficiency and effectiveness of information sharing between jurisdictions.

A mutual evaluators training workshop was held in March 2001. The Training Workshop for Evaluators of Anti-Money Laundering Measures was held at the International Law Enforcement Academy in Bangkok, Thailand. Forty-five participants from 19 APG member jurisdictions took part in the course.

An important 2001 development was the adoption of a detailed technical assistance and training strategy to provide necessary assistance to its members covering the legal, financial and law enforcement sectors. The Asian Development Bank (ADB) has entered into a joint project with the APG. The first project under that arrangement is a Regional Technical Assistance (RETA) project, including needed institutional and regulatory reforms, economic research on the impact of money laundering, and a training needs-assessment on money laundering requirements for a number of selected jurisdictions. The jurisdictions participating in the project are the Cook Islands, Fiji Islands, Indonesia, Marshall Islands, Nauru, Philippines, Samoa, Thailand and Vanuatu.

The International Monetary Fund (IMF) will be providing technical assistance through supporting the establishment of FIUs in the Pacific Islands. The IMF is working in co-operation with the APG

Secretariat and the Pacific Islands Forum Secretariat to achieve this. The jurisdictions participating in the project are the Cook Islands, Fiji Islands, Kiribati, Nauru, Niue, Samoa and Vanuatu.

In addition to working with the ADB and the IMF, the APG will collaborate with the ASEM (Asia Europe Meeting) Project, which is sponsored by the European Commission and the United Kingdom Government and co-chaired by Thailand and the United Kingdom. The aim of the project is to develop sustainable institutional capacity in the Asia region to address money laundering at a national, regional and international level. The project has three main objectives: to develop closer and deeper cooperation between Europe and Asia as part of international efforts to implement a global anti-money laundering network; to strengthen existing institutional capacity at the regional level; and to develop new, or enhance existing institutional capacity at the national level.

The 2001 APG self-assessment exercise, responded to by 12 members, provided the APG with a 'snapshot' of the anti-money laundering situation in the region and assisted the APG to assess the technical assistance and training needs of APG members. A preliminary analysis of the data already received indicates that a number of members have made significant progress in implementing the 40 FATF recommendations since the APG conducted its last self-assessment exercise in 1998-99. The APG self assessment exercise was also used by the APEC Working Group on Financial Crime and Money Laundering to help it develop a report on the training needs analysis of its members in the legal, financial, regulatory, and law enforcement areas. The report was discussed at the typologies workshop held in Singapore in October 2001.

The APG's continuing work program aims to enhance in a practical way the region's anti-money laundering response and to co-ordinate the efforts of member jurisdictions and relevant international and regional organizations. While much was achieved in 2001, many jurisdictions in the region are at an early stage in the development of their anti-money laundering systems and much remains to be done, especially in the provision of technical assistance and training. In 2002 and beyond, the APG will seek to build on the momentum created to date by further expanding its mutual evaluation and technical assistance and training programs, and, by expanding the APG's membership.

### **Caribbean Financial Action Task Force**

The Caribbean Financial Action Task Force (CFATF), a FATF-style regional body comprised of 25 jurisdictions<sup>1</sup>, continues to advance its anti-money laundering initiatives within the Caribbean basin. Members of the CFATF subscribe to a Memorandum of Understanding (MOU) that delineates the CFATF's mission, objectives, and membership requirements. All members are required to make a political commitment to adhere to and 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 May 2001, the CFATF conducted a mutual evaluation examiners training workshop to prepare CFATF examiners for conducting second round mutual evaluations. This well-attended seminar provided instruction to financial/regulatory, legal, and law enforcement experts who are to serve as examiners in conducting second round evaluations based on new benchmarks, including the revised 40 FATF Recommendations, the revised 19 CFATF Recommendations, and the 25 FATF criteria to identify non-cooperative countries or territories (NCCT criteria).

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<sup>1</sup> CFATF members include Anguilla, Antigua and Barbuda, Aruba, Commonwealth of the Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, Costa Rica, Dominica, the Dominican Republic, Grenada, Haiti, Jamaica, Montserrat, the Netherlands Antilles, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Turks and Caicos Islands, Trinidad and Tobago, and Venezuela.

In July 2001, the CFATF started its second round of mutual evaluations. As of December 31, 2001, all four mutual evaluation on-site visits scheduled for the year 2001 were completed—Barbados, Costa Rica, Dominican Republic, and Panama. The CFATF plans to conduct six mutual evaluations per year during the second round. These assessments are focusing on the effective implementation of the FATF and CFATF Recommendations, as well as FATF's NCCT criteria. Additionally, each CFATF member is expected to prepare and execute an implementation plan.

The final first round Mutual Evaluation Reports on Belize, Suriname, and Anguilla were adopted by the CFATF Council of Ministers in October 2001. To supplement the mutual evaluation process, the CFATF established a new program in 2001 in which annual reports will be prepared on each member providing an assessment of the member's level of compliance with the 40 FATF Recommendations, 19 CFATF Recommendations, and the 25 FATF NCCT criteria.

All member contributions were paid in 2001, with the exception of arrears owed by Nicaragua. Due to Nicaragua's lack of participation in the CFATF and non-payment of its arrears, Nicaragua's membership was automatically suspended in March 2001, based on a decision was taken at the previous CFATF Council Meeting in October 2000. Haiti, on the other hand, moved from observer status to full membership upon approval of the CFATF Council of Ministers in October 2001.

At the March 2001 CFATF typologies exercise, the CFATF formulated a code of conduct and compliance program to guard against money laundering avenues in the free trade zones. The recommendations developed during the Free Trade Zone Typology Exercise were endorsed by the Council of Ministers and are to be implemented in each Member State. For the year 2002, typologies exercises will be conducted on the issues of Economic Citizenship Programs existing in the Caribbean, and on Terrorist Financing.

## Council of Europe

The Council of Europe's (COE) Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV)<sup>1</sup> has achieved significant progress since its creation in 1997. At the plenary meeting of the PC-R-EV held in January 2001, first round mutual evaluation reports on Latvia, the Russian Federation, San Marino, and Ukraine were adopted. That plenary also agreed that the FATF's 25 criteria to identify non-cooperative countries and territories would be considered in assessing members' anti-money laundering regimes during the PC-R-EV's second round of mutual evaluations, and a new questionnaire was designed for that purpose. The second round of mutual evaluations began with an on-site visit in July 2001 to Slovenia, followed by Cyprus in September. Slovakia, the Czech Republic and Hungary also underwent second round mutual evaluation reviews during the last quarter of calendar year 2001. A second PC-R-EV plenary meeting of the year was held in December and saw the adoption of first round mutual evaluation reports on Albania, Moldova and Georgia.

The COE welcomed two new member states, Armenia and Azerbaijan, in February 2001. They have been invited to participate in the work of the PC-R-EV and submit themselves to the mutual evaluation and self-assessment processes conducted by it.

The PC-R-EV held its 3rd typologies meeting, for the first time separately from the plenary, in June 2001. Held in Andorra, the meeting focused on suspicious transaction reporting as well as trusts and other non-corporate entities. The next PC-R-EV typologies exercise is planned for April 2002 and will be hosted by Liechtenstein. Topics will include correspondent banking, as well as corruption and private banking.

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<sup>1</sup> PC-R-EV members include Albania, Andorra, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, the Former Yugoslav Republic of Macedonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Malta, Moldova, Poland, Romania, the Russian Federation, San Marino, Slovakia, Slovenia, and Ukraine.

## European Union

On 11/20/01 the European Union (EU) Council of Ministers approved revisions to the EU's anti-money laundering Directive (Council Directive 91/308/EEC of 10 June 1991). The Directive broadens the definition of targeted criminal activity from drug offense proceeds (as per original directive), to include proceeds from all serious crimes. The directive also imposes anti-money laundering obligations on "gatekeepers." The modifications require a broad range of professionals (including independent legal professionals, accountants, auditors, and notaries) to abide by anti-money laundering regulations within 18 months of the date of adoption.

The following is a portion of the adopted text:

*Member states shall ensure that the obligations laid down in this Directive are imposed on the following institutions: credit institutions (as defined previously); financial institutions (as defined previously); and on the following legal or natural persons acting in the exercise of their professional activities: auditors, external accountants and tax advisors; real estate agents notaries and other independent legal professionals, when they participate, whether: (a) by assisting in the planning or execution of transactions for their client concerning the (i) buying and selling of real property or business entities; (ii) managing of client money, securities or other assets; (iii) opening or management of bank, savings or securities accounts; (iv) organization of contributions necessary for the creation, operation or management of companies (v) creation, operation or management of trusts, companies or similar structures; (b) or by acting on behalf of and for their client in any financial or real estate transaction; dealers in high-value goods, such as precious stones or metals, or works of art, auctioneers, whenever payment is made in cash, and in an amount of EUR 15,000 or more; casinos.*

## Financial Action Task Force Against Money Laundering in South America (GAFISUD)

The Memorandum of Understanding establishing the South American Financial Action Task Force, (Grupo de Acción Financiera de Sudamerica Contra el Lavado de Activos-GAFISUD) was signed on December 8, 2000 by nine member states, Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Peru, Paraguay, and Uruguay. The Inter-American Development Bank, Mexico, Portugal, and the United States have joined GAFISUD as observers. In addition, the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD) is a special member of GAFISUD. GAFISUD is a FATF-style regional body committed to the adoption and implementation of the FATF 40 Recommendations. GAFISUD's mission also includes member self-assessment and mutual evaluation programs. Headquarters have been officially established in Buenos Aires, Argentina, and Uruguay has offered a training center to permanently render services to GAFISUD.

Colombia was elected as the first President of the organization for a one-year term and served additionally as the provisional Executive Secretariat. At the fourth Plenary in Santiago, Chile in December 2001, the presidency was turned over to Chile's Minister of the Interior. The Plenary also resulted in the adoption by GAFISUD of the FATF 8 Special Recommendations on Terrorist Financing. It was also decided that the self-evaluation exercise should be updated to include the FATF 25 NCCT Criteria.

The GAFISUD work program for 2001 included a mutual evaluation training seminar, financed and organized by Spain, held in Bolivia in September 2001. The program featured expert lecturers from Portugal, Brazil, Spain, France, Mexico, the United States and the FATF Secretariat, and trained three individuals from each of the nine member countries. Mutual evaluation exercises were conducted in October 2001 for Colombia and Uruguay.

## *OAS/CICAD*

During 2001, the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) carried out three major initiatives related to combating money laundering:

- Extending its peer review process to the measurement of indicators of progress in implementation of “members” anti-money laundering programs;
- Continuing to develop its training program in various aspects of anti-money laundering that best assist states in implementation of the Buenos Aires Communiqué; and
- Participating in the evolving development of the South American Financial Action Task Force on Money Laundering (GAFISUD).

### **Peer Review Process**

Work on the peer review process concerning counternarcotics policies and activities of member states including related activities such as money laundering control under the Multilateral Evaluation Mechanism (MEM) continued on schedule throughout the year. After the first round of evaluations of all 34 OAS/CICAD member countries for 1999-2000 was concluded in December 2000, the results were presented to the Summit of the Americas meeting in Quebec City, Canada in May 2001. Thereafter, measurements of progress achieved since the evaluation were carried out by the countries and made public on January 30, 2002 in the CICAD publication entitled “2001 Progress Report in Drug Control Implementation of Recommendations from the First Evaluation Round”.

### **Group of Experts**

Additionally, the Group of Experts to Control Money Laundering held a meeting in Lima, Peru, in July 2001 at which it carried out a typologies exercise involving laundering involving false gold purchases, reviewed the situation of several of the members’ FIUs and the identification of specific characteristics essential to their success, and updated the Plan of Action of Buenos Aires, using, inter alia, information derived from the Multilateral Evaluation Mechanism to evaluate the money laundering situation in the Hemisphere. The Group also considered a paper on the importance of Money Laundering as an autonomous offense, to distinguish it from other similar offences such as the “encubrimiento” and “receptacion” offenses familiar to the Spanish-speaking countries of the region. Finally, the Experts reviewed CICAD’s participation as an advisory member of GAFISUD activities.

### **Training**

After the culmination of the CICAD-Inter American Development Bank (IDB) Pilot Project to train over 500 employees of banking regulatory organizations and financial entities in seven South American countries in 2000, (Argentina, Bolivia, Chile, Colombia, Ecuador, Peru and Uruguay), a follow-up stage of this program was begun in these countries by means of a web page created by CICAD to provide updated information and for consultation purposes. On the basis of its results, the above-mentioned training program was accorded a prize by the Inter-American Development Bank as the second best project financed with IADB funds in the year 2000.

The importance of the impact of the program is further reflected in requests of several commercial financial institutions that wish to use the program for the training of their employees. To this end training was provided to officials of the Banco Montevideo in Uruguay and an agreement has been entered into with Banco Bilbao y Vizcaya (BBVA) to use the program to reach over sixty thousand members of its banks and associated banks throughout the South American region using internet training media and with CD-ROMs specifically adapted to the country concerned.

Additionally, a series of training courses for judges and prosecutors in the detection and carrying out of money laundering cases were designed during 2001, and the IDB has committed funds to support these courses. This program will be carried out in seven countries of South America (Argentina, Bolivia, Chile, Ecuador, Peru, Uruguay and Venezuela) in the summer of 2002. The program is expected to increase the efficacy of judicial proceedings and the quality of results in anti-money laundering cases.

### **Outreach**

Finally, in regard to outreach activities, in September 2001, CICAD representatives gave a presentation to a seminar held at the University of Lima in Lima, Peru, on the subject of Financial Intelligence Units, organized by the University and United States Embassy in Peru. CICAD also made presentations at the “Second Latin American Conference in Money Laundering” organized by Alert Global Media, which took place in Mexico City, Mexico in October. Finally, also in October CICAD participated in the First Panamerican Congress for the Prevention of Money Laundering, held in Cartagena, Colombia, organized by the Asociación de Bancos of Colombia (Asobancaria), the Latin American Federation of Banks (FELABAN), the Government of Colombia and the U.S. Embassy in Colombia.

## *The United Nations*

### **UN Convention Against Transnational Organized Crime**

The UN Convention against Transnational Organized Crime (Convention), signed by 125 countries including the United States at a high-level signing conference December 12-14, 2000 in Palermo, Italy, is the first legally binding multilateral treaty specifically targeting transnational organized crime. Two supplemental Protocols addressing trafficking in persons and migrant smuggling were also signed by many countries in Palermo. Each instrument will enter into force on the ninetieth day after the 40th state deposits an instrument of ratification, acceptance, approval or accession. As of the end of 2001, 140 countries had signed the convention and six countries (Bulgaria, Latvia, Monaco, Nigeria, Poland, and Yugoslavia) had deposited instruments of ratification.

The Convention takes aim at preventing and combating transnational organized crime through a common toolkit of criminal law techniques and international cooperation. It requires states parties to have laws criminalizing the most prevalent types of criminal conduct associated with organized crime groups, including money laundering, obstruction of justice, corruption of public officials and conspiracy. The article on money laundering regulation requires parties to institute a comprehensive domestic regulatory and supervisory regime for banks and financial institutions to deter and detect money laundering. The regime will have to emphasize requirements for customer identification, record keeping and reporting of suspicious transactions.

### **United Nations Global Programme against Money Laundering (GPML)**

The United Nations is the only international organization that provides training and technical assistance on a global basis to legal, financial and law enforcement authorities, with the aim of helping them develop the infrastructure to address money laundering. The United Nations Office for Drug Control and Crime Prevention (ODCCP), through its Global Program Against Money Laundering (GPML), has the capacity to provide practical, results-oriented assistance that helps countries and jurisdictions achieve compliance with the full range of international anti-money laundering standards.

GPML maximized this global role in 2001 by strengthening its synergies via collaborative technical assistance efforts with other international partners, including the International Monetary Fund (IMF), the Commonwealth Secretariat, Interpol, the Caribbean Financial Action Task Force (CFATF), the Asia-

Pacific Group on Money Laundering (APG), the Egmont Group, the Caribbean Development Bank, and the Pacific Islands Secretariat.

The Program assisted a number of jurisdictions with drafting new legislation and developing existing anti-money laundering legal frameworks. They included Andorra, Gibraltar, Haiti, Israel, Kosovo, Lebanon, Panama, the Philippines, and the Russian Federation, with much of this assistance being delivered in conjunction with the IMF. Israel returned to GPML for further assistance in developing its legislation in an ongoing relationship with the Program stretching back to 1999, when GPML first began to advise the Government on its anti-money laundering regime.

The delivery of technical assistance to FIUs was a major Program objective in 2001. A GPML mentor completed his efforts in Barbados to assist in establishing an FIU, which was officially launched in September 2001. With the support of the Caribbean Development Bank, GPML also managed a consultancy to examine the feasibility of establishing a regional FIU to work with national FIU offices in the Organization of Eastern Caribbean States (OECS). The Program began collaborating with the Commonwealth Secretariat to provide a mentor to FIUs in the Pacific region, who would assist them with the improvement of investigative techniques and the preparation of cases. Working with the Egmont Group, the Program hosted for the first time a joint training workshop attended by 120 FIU personnel at UN headquarters in Vienna. GPML co-organized further training support with Interpol and the Royal Canadian Mounted Police in a seminar on undercover financial investigative techniques in Ottawa, Canada, which took place in September 2001.

Where possible, GPML took a regional approach to the delivery of technical assistance: in the Pacific region, in a coordinated effort with the IMF, APG, Pacific Islands Secretariat and the Commonwealth Secretariat; in the Caribbean with CFATF, the OECS and the Caribbean Development Bank; and in Africa, helping to develop the Groupe Intergouvernemental Anti-Blanchiment en Afrique (GIABA); the Groupe Anti-Blanchiment d'Afrique Centrale (GABAC), and the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG).

As part of its efforts to raise awareness of the problems associated with money laundering, GPML organized with the Russian Federation an international conference on the illegal economy and money laundering, held in St. Petersburg in June 2001, and attended by 120 participants from more than 30 countries and international organizations.

GPML also chaired ODCCP's joint initiative on asset recovery in grand corruption cases, working closely with the Global Programme against Corruption and other units of the Centre for Crime Prevention (CICP) on an Expert Group Meeting, research and the drafting of a joint project for assistance to Nigeria. The Expert Group Meeting brought together legal experts from Africa, the Americas, Asia-Pacific, and Europe to identify the legal problems associated with ensuring the return of funds to countries from which they had been stolen. The meeting was held in response to United Nations General Assembly Resolution 55/188 on "Preventing and combating corrupt practices and illegal transfer of funds and repatriation of such funds to the countries of origin", in which the General Assembly called for increased international cooperation through the United Nations system to address the problem.

In March 2001, the Program's research section published a major study of money laundering in the Russian Federation, *Russian Capitalism and Money Laundering*, which examined the vulnerabilities to money laundering faced by transition countries. The Program also provided research support to the ODCCP asset recovery initiative, with a series of reports and the briefing, *Recovering Stolen States Assets: An Overview*, which analyses the scope of the misappropriation of state assets and the problems associated with their return. At the start of 2001, the Program had identified money laundering in Central Asia as a research priority, given the long-standing regional problems associated with illegal financial flows linked to drug trafficking and terrorism. After September 11, GPML drafted a series of five profiles of the Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) that identified key money laundering problems in the region surrounding Afghanistan, and analyzed state capacity to address them.

In 2001, the research section of GPML also began a complete renovation of the International Money Laundering Information Network (IMoLIN). GPML operates IMoLIN, a service that provides anti-money laundering practitioners with legal research tools, in partnership with the FATF, the Commonwealth Secretariat, Interpol, the OAS, the APG, and the Council of Europe. More than 300 pieces of legislation were loaded onto the Country Pages in 2001, and IMoLIN now contains the full text of national anti-money laundering legislation for most countries of the world. GPML also began a substantive review of the Anti-Money Laundering Information Database (AMLID), which provides analysis of national legislation on IMoLIN, to incorporate new developments in anti-money laundering.

In further response to the events of September 11, GPML is responsible for providing expertise on money laundering to support United Nations efforts against terrorism, as a member of the International Legal Instruments and International Criminal Justice Issues sub-group of the UN Policy Working Group on the United Nations and Terrorism. In October, the Program sent a law enforcement expert to Pakistan to investigate money laundering and prepare a series of recommendations for further action by the Program.

### **Convention for the Suppression of the Financing of Terrorism**

On December 9, 1999, the United Nations General Assembly adopted the International Convention for the Suppression of the Financing of Terrorism. It was opened for signature from January 10, 2000 to December 31, 2001. This Convention requires parties to criminalize the provision or collection of funds with the intent that they be used, or in the knowledge that they are to be used, to conduct certain terrorist activity. Article 18 of the Convention requires states parties to cooperate in the prevention of terrorist financing by adapting their domestic legislation, if necessary, to prevent and counter preparations in their respective territories for the commission of offenses specified in Article 2. To that end, Article 18 encourages implementation of numerous measures also included among the FATF's 40 Recommendations. These measures, which states parties may implement at their discretion, include: prohibiting accounts held by or benefiting people unidentified or unidentifiable; verifying the identity of the real parties to transactions; and requiring financial institutions to verify the existence and the structure of the customer by obtaining proof of incorporation.

The Convention also encourages states parties to obligate financial institutions to report complex or large transactions and unusual patterns of transactions which have no apparent economic or lawful purpose, without incurring criminal or civil liability for good faith reporting; to require financial institutions to maintain records for five years; to supervise (for example, through licensing) money-transmission agencies; and to monitor the physical cross-border transportation of cash and bearer negotiable instruments. Finally, the Convention addresses information exchange, including through the International Criminal Police Organization (Interpol). As of December 31, 2001, 132 states had signed the Convention. It will enter into force on the thirtieth day after the 40th state deposits an instrument of ratification, acceptance, approval or accession. As of December 31, 2001, 16 states had deposited instruments of ratification or accession. The United States has signed the Convention and the U.S. Senate has given its advice and consent to ratification. The remaining legislation needed to enable the U.S. to complete the ratification process is pending before the Congress and is expected to be enacted in early 2002. Once the President has signed the instrument of ratification and the legislation is enacted, the U.S. expects to deposit its instrument of ratification with the Secretary-General of the United Nations.

### ***Basel Committee on Banking Supervision***

The Basel Committee on Banking Supervision is part of the Bank for International Settlements, an international organization that fosters cooperation among central banks and other supervisory authorities. The Basel Committee is a Committee of banking supervisory authorities established by the central bank governors of the Group of Ten countries in 1975. It consists of senior representatives of banking



supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden, Switzerland, United Kingdom and the United States. The Committee does not possess any supervisory authority but formulates broad supervisory standards, guidelines and recommendations for best practices.

In October 2001, the Committee issued a consultative paper on customer due diligence for banks. The paper is part of an ongoing effort by the Basel Committee to strengthen risk management procedures in banks throughout the world. Effective due diligence is an essential element of bank's risk management systems, the importance of which has been underscored by the recent terrorist attacks. In developing the consultative paper, the Basel Committee determined that many countries around the world had not developed adequate supervisory practices with regard to money laundering and other financial crimes.

The paper calls on supervisors to ensure that banks apply an acceptable minimum standard of due diligence policies and procedures to all areas, embracing domestic and overseas operations, and corporate and private banking business. To guard against risk, banks therefore, must develop policies and procedures in key areas such as customer acceptance, customer identification, and the ongoing monitoring of high-risk accounts.

The Basel Committee has also cooperated with the U.S. in anti-terrorism efforts. For example, the Committee circulated the FBI Control List of suspected terrorists to its members. In December, the Committee formed a subgroup of lawyers to address international information sharing. The group identified and discussed a number of gateways through which bank information could pass international borders.

### *Financial Intelligence Units (FIU) and the Egmont Group*

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. The specialized agencies created by governments to fight money laundering first met in 1995 at the Egmont-Arenberg Palace in Belgium to share experiences. Now known as the Egmont Group, these specialized units called financial intelligence units, or FIUs, meet annually to find ways to cooperate, especially in the areas of information exchange, training, and the sharing of expertise.

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. Egmont's secure web system 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. FinCEN, on behalf of the Egmont Group, maintains the Egmont Secure Web. Currently, there are 43 FIUs connected to the ESW.

FinCEN hosted a special meeting of the Egmont Group on terrorist financing in October 2001 to support the unprecedented law enforcement investigation in the wake of the events of September 11. During the special meeting, the Egmont Group agreed to: (1) review existing national legislation to identify and eliminate existing impediments to exchanging information between FIUs, especially when such information concerns terrorist activity; (2) encourage national governments to make terrorist financing a predicate offense to money laundering and to consider terrorist financing one form of suspicious activity for which financial institutions should be on the look out; (3) pass requests for information involving FIUs exclusively between FIUs rather than other government agencies; (4) have FIUs play a greater role screening requests for information; and (5) to pool Egmont Group resources, where appropriate, to conduct joint strategic studies of money laundering vulnerabilities, including alternative remittance systems.

Egmont working groups (Legal, Training/Communications, and Outreach) meet three times a year. The Legal Working Group reviews the candidacy of potential Egmont FIUs and enhances information exchange between FIUs. The Training/Communications Working Group looks at ways to communicate more effectively, identifies training opportunities for FIU personnel and examines new software applications that might facilitate analytical work. The Training/Communications Working Group co-hosted an FIU training seminar for analysts in January 2001. All FIUs, as well as countries working toward creating FIUs, were invited to participate in this first major Egmont training opportunity in which over 120 analysts participated.

The Outreach Working Group works to create a global network of FIUs to facilitate international cooperation. The Outreach Working Group has identified countries that the Egmont Group should approach to offer to assist in the development of FIUs.

There are currently 58 operational FIU units worldwide, with many others in various stages of development. FIUs operate in: Aruba, Australia, Austria, Belgium, Bermuda, Bolivia, Brazil, British Virgin Islands, Bulgaria, Chile, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Estonia, Finland, France, Greece, Guernsey, Hong Kong, Hungary, Iceland, Ireland, Isle of Man, Italy, Japan, Jersey, Latvia, Lithuania, Luxembourg, Mexico, Monaco, Netherlands, Netherlands Antilles, New Zealand, Norway, Panama, Paraguay, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Taiwan, Turkey, United Kingdom, United States and Venezuela. The Bahamas, Cayman Islands, El Salvador, Liechtenstein and Thailand joined Egmont in 2001.

## Major Money Laundering Countries

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 an assessment of the significance of financial transactions in the country's financial institutions that involve proceeds of serious crime, 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 2001 INCSR assigned priorities to jurisdictions using a classification system consisting of three differential categories titled Jurisdictions of Primary Concern, Jurisdictions of Concern, and Other Jurisdictions Monitored.

The "Jurisdictions of Primary Concern" are those jurisdictions that are identified pursuant to the INCSR reporting requirements as "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." 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. The category "Jurisdiction of Primary Concern" 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. Thus, the focus of analysis in considering whether a country or jurisdiction should be included in this category is on the significance of the amount of proceeds laundered not of the anti-money laundering measures taken. This is a different approach taken than the FATF Non-Cooperative Countries and Territories (NCCT) exercise, which focuses on a

jurisdiction's compliance with stated criteria regarding its legal and regulatory framework, international cooperation, and resource allocations.<sup>1</sup>

All other countries and jurisdictions evaluated in the INCSR report are separated into the two remaining groups, "Jurisdictions of Concern" and "Other Jurisdictions Monitored," on the basis of a number of factors which can include: (1) whether the country's financial institutions engage in transactions involving significant amounts of proceeds from serious crime; (2) the extent to which the jurisdiction is or remains vulnerable to money laundering, notwithstanding its money laundering countermeasures, if any (an illustrative list of factors that may indicate vulnerability is provided below); (3) the nature and extent of the money laundering situation in each jurisdiction (for example, whether it involves drugs or other contraband); (4) the ways in which the U.S. regards the situation as having international ramifications; (5) the situation's impact on U.S. interests; (6) whether the jurisdiction has taken appropriate legislative actions to address specific problems; (7) whether there is a lack of licensing and oversight of offshore financial centers and businesses; (8) whether the jurisdiction's laws are being effectively implemented; and (9) where U.S. interests are involved, the degree of cooperation between the foreign government and U.S. government agencies.

A government (e.g., the U.S. or the UK) can have comprehensive laws on its books and conduct aggressive anti-money laundering enforcement efforts but still be classified a "Primary Concern" jurisdiction. In some cases, this classification may simply or largely be a function of the size of the jurisdiction's economy. In such jurisdictions quick, continuous and effective anti-money laundering efforts by the government are critical. While the actual money laundering problem in jurisdictions classified "Concern" is not as acute, they too must undertake efforts to develop or enhance their anti-money laundering regimes. Finally, while jurisdictions in the "Other" category do not pose an immediate concern, it will nevertheless be important to monitor their money laundering situations because, under the right circumstances, virtually any jurisdiction of any size can develop into a significant money laundering center.

## *Vulnerability Factors*

The current ability of money launderers to penetrate virtually any financial system makes every jurisdiction a potential money laundering center. There is no precise measure of vulnerability for any financial system, and not every vulnerable financial system will, in fact, be host to large volumes of laundered proceeds, but a checklist of what drug money managers reportedly look for provides a basic guide. The checklist includes:

- Failure to criminalize money laundering for all serious crimes or limiting the offense to narrow predicates.
- Rigid bank secrecy rules that obstruct 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.

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<sup>1</sup> The 25 FATF criteria can be found on the FATF website: <http://www.fatf-gafi.org>.

- 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 for identifying 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 information on 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 investigators or regulators.
- 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.

# Money Laundering and Financial Crimes

## Changes in INCSR Priorities, 2001-2002

Upgrades	Downgrades	Additions
Macao Concern → Primary	St. Kitts & Nevis Primary → Concern	Iceland Other
Ukraine Concern → Primary		Lesotho Other
Yemen Other → Concern		

In the **Country/Jurisdiction Table** on the following page, “major money laundering countries” are identified for purposes of INCSR reporting requirements. Identification as a “major money laundering country” is based on whether the country or jurisdiction’s financial institutions engage in transactions involving significant amounts of proceeds from serious crime. It is not based on an assessment of the country or jurisdiction’s legal framework to combat money laundering or the degree of its cooperation in the international fight against money laundering.

## *Country/Jurisdiction Table*

Countries/Jurisdictions of Primary Concern	Countries/Jurisdictions of Concern	Other Countries/Jurisdictions Monitored
Antigua and Barbuda	Russia	Albania
Australia	Singapore	Argentina
Austria	Spain	Aruba
Bahamas	St. Vincent	Bahrain
Brazil	Switzerland	Barbados
Burma	Taiwan	Belgium
Canada	Thailand	Belize
Cayman Islands	Turkey	Bolivia
China, People Rep	Ukraine	British Virgin Islands
Colombia	United Arab Emirates	Bulgaria
Cyprus	United Kingdom	Cambodia
Dominica	USA	Chile
Dominican Rep	Uruguay	Cook Islands
France	Venezuela	Costa Rica
Germany		Czech Rep
Greece		Ecuador
Grenada		Egypt
Guernsey		El Salvador
Hong Kong		Gibraltar
Hungary		Guatemala
India		Haiti
Indonesia		Honduras
Isle of Man		Ireland
Israel		Jamaica
Italy		Korea, Republic of <sup>a</sup>
Japan		Korea (DPRK)
Jersey		Latvia
Lebanon		Malaysia
Liechtenstein		Marshall Islands
Luxembourg		Monaco
Macau		Netherlands Antilles
Mexico		Nicaragua
Nauru		Niue
Netherlands		Palau
Nigeria		Peru
Pakistan		Poland
Panama		Portugal
Paraguay		Romania
Philippines		Samoa
		Seychelles
		Slovakia
		South Africa
		St. Kitts & Nevis
		St. Lucia
		Turks & Caicos
		Vanuatu
		Vietnam
		Yemen
		Yugoslavia FR
		Afghanistan
		Algeria
		Angola
		Anguilla
		Armenia
		Azerbaijan
		Bangladesh
		Belarus
		Benin
		Bermuda
		Bosnia & Herzegovina
		Botswana
		Brunei
		Cameroon
		Cote D'Ivoire
		Croatia
		Cuba
		Denmark
		Eritrea
		Estonia
		Ethiopia
		Fiji
		Finland
		Georgia
		Ghana
		Guyana
		Iceland
		Iran
		Jordan
		Kazakhstan
		Kenya
		Kuwait
		Kyrgyzstan
		Laos
		Lesotho
		Liberia
		Lithuania
		Macedonia
		Madagascar
		Malawi
		Maldives
		Mali
		Malta
		Mauritius
		Micronesia FS
		Moldova
		Mongolia
		Montserrat
		Morocco
		Mozambique
		Namibia
		Nepal
		New Zealand
		Niger
		Norway
		Oman
		Papua New Guinea
		Qatar
		Saudi Arabia
		Senegal
		Slovenia
		Soloman Islands
		Sri Lanka
		Suriname
		Swaziland
		Sweden
		Tajikistan
		Tanzania
		Togo
		Tonga
		Trinidad and Tobago
		Tunisia
		Turkmenistan
		Uganda
		Uzbekistan
		Zambia
		Zimbabwe

## *Comparative Chart*

The comparative chart that follows the Glossary of Terms below identifies the broad range of actions that jurisdictions have, or have not, taken to combat money laundering, that were effective as of December 31, 2001. This reference chart provides a comparison of elements that define legislative activity and identify other characteristics that can have a relationship to money laundering vulnerability. Where there is no or inconclusive information regarding specific categories, the corresponding cells on the chart have been left blank.

## **Glossary of Terms**

1. “Criminalized Drug Money Laundering”: The jurisdiction has enacted laws criminalizing the offense of money laundering related to drug trafficking.
2. “Criminalized Beyond Drugs”: The jurisdiction has extended anti-money laundering statutes and regulations to include non-drug-related money laundering.
3. “Record Large Transactions”: By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.
4. “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.
5. “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.
6. “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 are members of the Egmont Group.
7. “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.
8. “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.
9. “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.
10. “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.
11. “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.

12. “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.
13. “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.
14. “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.
15. “Offshore Financial Centers”: By law or regulation, the jurisdiction authorizes the licensing of offshore banking and business facilities.
16. “States Parties to 1988 UN Drug Convention”: As of December 31, 2001, a party to the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.



# Comparative Chart

<b>Actions by Governments</b>	<i>Criminalized Drug Money Laundering</i>	<i>Criminalized Beyond Drugs</i>	<i>Record Large Transactions</i>	<i>Maintain Records Over Time</i>	<i>Report Suspicious Transactions (NMP)</i>	<i>Financial Intelligence Unit</i>	<i>System for Identifying/Forfeiting Assets</i>	<i>Arrangements for Asset Sharing</i>	<i>Cooperates w/Domestic Law Enforcement</i>	<i>Cooperates w/International Law Enforcement</i>	<i>International Transportation of Currency</i>	<i>Mutual Legal Assistance</i>	<i>Non-Bank Financial Institutions</i>	<i>Disclosure Protection "Safe Harbor"</i>	<i>Offshore Financial Centers</i>	<i>States Parties to 1988 UN Convention</i>
<b>Government/ Jurisdiction</b>																
Afghanistan	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Albania	Y	Y	Y	N	M	N	N	N	Y	N	N	Y	N	N	N	Y
Algeria	N	N	N	N	N	N					Y	N	N		N	Y
Angola	Y	N				N						Y			N	N
Anguilla	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	N	N	Y	Y
Antigua & Barbuda	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Argentina	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Armenia	N	N	N	N	N	N	N	N	Y	N	N	N	N	N	N	Y
Aruba	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Australia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Austria	Y	Y	Y	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	N	Y
Azerbaijan	N	N	N	N	N	N	N	N		N	Y	N	N	N	N	Y
Bahamas	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Bahrain	Y	Y	N	Y	M	N	Y	N	Y	Y	N	N	N	Y	Y	Y
Bangladesh	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Barbados	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Belarus	N	N	Y	Y	N	N	N	N	N	N	N	Y	N	N	N	Y
Belgium	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y

<b>Actions by Governments</b>	<b><i>Criminalized Drug Money Laundering</i></b>	<b><i>Criminalized Beyond Drugs</i></b>	<b><i>Record Large Transactions</i></b>	<b><i>Maintain Records Over Time</i></b>	<b><i>Report Suspicious Transactions (NMP)</i></b>	<b><i>Financial Intelligence Unit</i></b>	<b><i>System for Identifying/Forfeiting Assets</i></b>	<b><i>Arrangements for Asset Sharing</i></b>	<b><i>Cooperates w/Domestic Law Enforcement</i></b>	<b><i>Cooperates w/International Law Enforcement</i></b>	<b><i>International Transportation of Currency</i></b>	<b><i>Mutual Legal Assistance</i></b>	<b><i>Non-Bank Financial Institutions</i></b>	<b><i>Disclosure Protection "Safe Harbor"</i></b>	<b><i>Offshore Financial Centers</i></b>	<b><i>States Parties to 1988 UN Convention</i></b>
Belize	Y	Y	Y	Y	M	N	Y	N	N	Y	Y	Y	Y	Y	Y	Y
Benin	Y	Y	N	N	M	N	Y	Y	Y	Y	N	N	N	Y	N	Y
Bermuda	Y	Y	Y	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	Y	Y
Bolivia	Y	Y	N	Y	M	Y	Y	N	N	N	N	N	Y	Y	N	Y
Bosnia & Herzegovina	N				M	N	N	N				N		Y	N	Y
Botswana	Y	N	Y		P	N	Y	Y	Y						Y	Y
Brazil	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
British Virgin Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Brunei	N	N	N	N	N	N	Y	N			N		N	N	Y	Y
Bulgaria	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	N	Y
Burma	Y	N	N	N	N	N	Y	N	N	N	N	N	N	N	N	Y
Cambodia	Y	N	N	Y	M	N	N	N	Y	Y	Y	N	N		N	N
Cameroon	N	N				N				N					N	Y
Canada	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Cayman Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Chile	Y	N	N	Y	P	Y	Y	N	Y	Y	N	Y	N	N	N	Y
China (PRC)	Y	Y	Y	N	M	N	Y	N	Y	N	Y	Y	N	N	N	Y
Colombia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Comoros	N	N	N	N	N	N					N		N	N		Y
Cook Islands	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Costa Rica	Y	N	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cote D'Ivoire	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	N	Y	N	Y

## Money Laundering and Financial Crimes

Actions by Governments	<i>Criminalized Drug Money Laundering</i>	<i>Criminalized Beyond Drugs</i>	<i>Record Large Transactions</i>	<i>Maintain Records Over Time</i>	<i>Report Suspicious Transactions (NMP)</i>	<i>Financial Intelligence Unit</i>	<i>System for Identifying/Forfeiting Assets</i>	<i>Arrangements for Asset Sharing</i>	<i>Cooperates w/Domestic Law Enforcement</i>	<i>Cooperates w/International Law Enforcement</i>	<i>International Transportation of Currency</i>	<i>Mutual Legal Assistance</i>	<i>Non-Bank Financial Institutions</i>	<i>Disclosure Protection "Safe Harbor"</i>	<i>Offshore Financial Centers</i>	<i>States Parties to 1988 UN Convention</i>
Croatia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Cuba	Y	Y	N	N	P	N	Y	N	N	N	Y	N	N	N	N	Y
Cyprus	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Czech Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Denmark	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Dominica	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dominican Republic	Y	N	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Ecuador	Y	N	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	N	N	Y
Egypt	N	N	N	Y	P	N	N	Y	Y	Y	N	Y	N	N	N	Y
El Salvador	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Eritrea						N									N	N
Estonia	Y	Y	Y	N	M	Y	N	N	Y	N	Y	Y	N	N	N	Y
Ethiopia	N	N	Y	Y	N	N	N	N			N		N	N	N	Y
Fiji	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	N	N	N	Y
Finland	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y
France	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Georgia	N	N	N	N	N	N	N	N			N	Y	N	N	N	Y
Germany	Y	Y	Y	Y	M	N	Y	N	Y	Y	N	Y	Y	Y	N	Y
Ghana	Y	Y	N	Y	N	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Gibraltar	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Greece	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Grenada	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

<b>Actions by Governments</b>	<b><i>Criminalized Drug Money Laundering</i></b>	<b><i>Criminalized Beyond Drugs</i></b>	<b><i>Record Large Transactions</i></b>	<b><i>Maintain Records Over Time</i></b>	<b><i>Report Suspicious Transactions (NMP)</i></b>	<b><i>Financial Intelligence Unit</i></b>	<b><i>System for Identifying/Forfeiting Assets</i></b>	<b><i>Arrangements for Asset Sharing</i></b>	<b><i>Cooperates w/Domestic Law Enforcement</i></b>	<b><i>Cooperates w/International Law Enforcement</i></b>	<b><i>International Transportation of Currency</i></b>	<b><i>Mutual Legal Assistance</i></b>	<b><i>Non-Bank Financial Institutions</i></b>	<b><i>Disclosure Protection "Safe Harbor"</i></b>	<b><i>Offshore Financial Centers</i></b>	<b><i>States Parties to 1988 UN Convention</i></b>
Guatemala	Y	Y	Y	Y	M	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y
Guernsey	Y	Y	N	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Guyana	N	N	N	N	N	N	N	N	N	N	Y	Y	N	N	N	Y
Haiti	Y	Y	Y	Y	M	N	Y	N	Y	N	N	N	Y	Y	N	Y
Honduras	Y	N	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Hong Kong	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Hungary	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Iceland	Y	Y	N	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	N	Y
India	Y	N	Y	Y	P	N	Y	N	Y	Y	Y	Y	N	Y	Y	Y
Indonesia	N	N	N	N	M	N	N	N	Y	Y	N	N	N	N	N	Y
Iran	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Ireland	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Isle of Man	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Israel	Y	Y	N	Y	M	N	N	Y	Y	Y	Y	Y	Y	N	N	N
Italy	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Jamaica	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	N	Y
Japan	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Jersey	Y	Y	N	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Jordan	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Kazakhstan	Y	Y	N	Y	N	N	N	N	Y	N	Y	Y	N	N	N	Y
Kenya	Y	N	Y		N	N	Y	N	Y	Y	N		N	N	N	Y
Korea (DPRK)	N	N				N					N	N			N	N

## Money Laundering and Financial Crimes

Actions by Governments	<i>Criminalized Drug Money Laundering</i>	<i>Criminalized Beyond Drugs</i>	<i>Record Large Transactions</i>	<i>Maintain Records Over Time</i>	<i>Report Suspicious Transactions (NMP)</i>	<i>Financial Intelligence Unit</i>	<i>System for Identifying/Forfeiting Assets</i>	<i>Arrangements for Asset Sharing</i>	<i>Cooperates w/Domestic Law Enforcement</i>	<i>Cooperates w/International Law Enforcement</i>	<i>International Transportation of Currency</i>	<i>Mutual Legal Assistance</i>	<i>Non-Bank Financial Institutions</i>	<i>Disclosure Protection "Safe Harbor"</i>	<i>Offshore Financial Centers</i>	<i>States Parties to 1988 UN Convention</i>
Korea (Republic of)	Y	Y	N	Y	M	N	Y	N	Y	Y	N	Y	N		N	Y
Kuwait	N	N	Y	Y	M	N	N	N	Y	N	N	N	N	N	N	Y
Kyrgyzstan	N	N	N	N	P	N	Y	N	Y	N	N	N	N	N	N	Y
Laos	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Latvia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	N	Y
Lebanon	Y	Y	N	Y	M	N	Y	N	N	N	N	Y	Y	Y	N	Y
Lesotho	N	N	N		M	N		N				N			N	Y
Liberia	N	N	N			N					Y				Y	N
Liechtenstein	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Lithuania	Y	Y	Y	Y	M	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y
Luxembourg	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Macau	Y	Y	N	Y	M	N	Y	N	Y	Y	N	Y	Y	Y	Y	Y
Macedonia	Y	Y				N									N	Y
Madagascar	Y					N									N	Y
Malawi						N									N	Y
Malaysia	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	Y	Y
Maldives	N	N	N	N	N	N	N	N			N		N	N	Y	Y
Mali						N									N	Y
Malta	Y	Y	N	Y	M	N	Y		Y		N		Y	N	Y	Y
Marshall Islands	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	N	N
Mauritius	Y	Y	N	Y	M	N	Y	N	Y	Y	N	Y	Y	Y	Y	Y

<b>Actions by Governments</b>	<b>Criminalized Drug Money Laundering</b>	<b>Criminalized Beyond Drugs</b>	<b>Record Large Transactions</b>	<b>Maintain Records Over Time</b>	<b>Report Suspicious Transactions (NMP)</b>	<b>Financial Intelligence Unit</b>	<b>System for Identifying/Forfeiting Assets</b>	<b>Arrangements for Asset Sharing</b>	<b>Cooperates w/Domestic Law Enforcement</b>	<b>Cooperates w/International Law Enforcement</b>	<b>International Transportation of Currency</b>	<b>Mutual Legal Assistance</b>	<b>Non-Bank Financial Institutions</b>	<b>Disclosure Protection "Safe Harbor"</b>	<b>Offshore Financial Centers</b>	<b>States Parties to 1988 UN Convention</b>
Mexico	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Micronesia					N										N	N
Moldova	Y	Y	Y	Y	M	N	N	N	Y	N	N	Y	Y	N	N	Y
Monaco	Y	Y			M	Y	Y					Y	Y		Y	Y
Mongolia	N	N	N	N	N	N					N	N	N	N	N	N
Montserrat	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y
Morocco	N	N	N	Y	N	N	N	N	N	N	N	Y	N	N	Y	Y
Mozambique	Y	Y	Y	Y	M	N	N	N	N	N	Y	Y	Y	Y	N	Y
Namibia	N	N	N	N	N	N					N	N	N	N	N	N
Nauru	Y	Y	N	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Nepal	N	N	N	Y	N	N	Y	N	Y	Y	N	Y	N	N	N	Y
Netherlands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y
Netherlands Antilles	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
New Zealand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Nicaragua	Y	N	Y	Y	M	N	Y	N	Y	N	Y	Y	N	N	N	Y
Niger					N										N	Y
Nigeria	Y	N	Y	Y	M	N	Y	N	Y	Y	Y	Y	N	Y	N	Y
Niue	Y	Y	N	Y	M	N	N	N	Y	Y	N	Y	Y	Y	Y	N
Norway	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Oman	Y	N	Y		M	N						Y			N	Y
Pakistan	Y	N	N	Y	N	N	Y	N	Y	N	N	Y	N	Y	N	Y
Palau	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	N	Y	N

## Money Laundering and Financial Crimes

<b>Actions by Governments</b>	<b><i>Criminalized Drug Money Laundering</i></b>	<b><i>Criminalized Beyond Drugs</i></b>	<b><i>Record Large Transactions</i></b>	<b><i>Maintain Records Over Time</i></b>	<b><i>Report Suspicious Transactions (NMP)</i></b>	<b><i>Financial Intelligence Unit</i></b>	<b><i>System for Identifying/Forfeiting Assets</i></b>	<b><i>Arrangements for Asset Sharing</i></b>	<b><i>Cooperates w/Domestic Law Enforcement</i></b>	<b><i>Cooperates w/International Law Enforcement</i></b>	<b><i>International Transportation of Currency</i></b>	<b><i>Mutual Legal Assistance</i></b>	<b><i>Non-Bank Financial Institutions</i></b>	<b><i>Disclosure Protection "Safe Harbor"</i></b>	<b><i>Offshore Financial Centers</i></b>	<b><i>States Parties to 1988 UN Convention</i></b>
Panama	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Papua New Guinea	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Paraguay	Y	Y	Y	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	Y	Y
Peru	Y	N	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	N	Y
Philippines	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Poland	Y	Y	Y	Y	M	N	N	N	Y	Y	Y	Y	N	N	N	Y
Portugal	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Qatar	N	N	Y	Y	M	N			Y	Y	N	Y	N	N	N	Y
Romania	Y	Y	Y	Y	M	Y	N	N	Y	N	N	Y	Y	Y	N	Y
Russia	Y	Y	Y	Y	M	N	Y	N	Y	N	N	Y	Y	N	N	Y
Samoa	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Saudi Arabia	Y	Y		Y	M	N	Y	N	Y			Y	Y		N	Y
Senegal	Y	N				N						Y			N	Y
Seychelles	Y	Y	N	Y	M	N	Y	N						Y	Y	Y
Singapore	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y
Slovakia	Y	Y	Y	Y	M	Y	N	N	Y	Y	Y	N	Y	N	N	Y
Slovenia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Solomon Islands	N	N			N	N									N	N
South Africa	Y	Y	N	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	N	Y
Spain	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Sri Lanka	N	N	N	N	N	N	N	N	Y	N	N	Y	N	N	N	Y
St Kitts & Nevis	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

<b>Actions by Governments</b>	<b><i>Criminalized Drug Money Laundering</i></b>	<b><i>Criminalized Beyond Drugs</i></b>	<b><i>Record Large Transactions</i></b>	<b><i>Maintain Records Over Time</i></b>	<b><i>Report Suspicious Transactions (NMP)</i></b>	<b><i>Financial Intelligence Unit</i></b>	<b><i>System for Identifying/Forfeiting Assets</i></b>	<b><i>Arrangements for Asset Sharing</i></b>	<b><i>Cooperates w/Domestic Law Enforcement</i></b>	<b><i>Cooperates w/International Law Enforcement</i></b>	<b><i>International Transportation of Currency</i></b>	<b><i>Mutual Legal Assistance</i></b>	<b><i>Non-Bank Financial Institutions</i></b>	<b><i>Disclosure Protection "Safe Harbor"</i></b>	<b><i>Offshore Financial Centers</i></b>	<b><i>States Parties to 1988 UN Convention</i></b>
St. Lucia	Y	Y	Y	Y	M	N	Y	N	Y	Y	N	Y	Y	Y	N	Y
St. Vincent/Grenadine	Y	Y	Y	Y	M	N	Y	Y	Y	N	N	Y	Y	Y	Y	Y
Suriname	Y	N	N	N	M	N	N				N	Y	N	N	N	Y
Swaziland	Y	Y			M	N	Y								N	Y
Sweden	Y	Y	Y	Y	M	Y	Y		Y	Y	N	Y	Y	Y	N	Y
Switzerland	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Syria	N	N			N	N	Y				Y	Y			N	Y
Taiwan	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	NA
Tajikistan	N	N	N	N	N	N	N	N			N	Y	N	N	N	Y
Tanzania	Y	N	Y	Y	P	N	N	N	Y				N	Y	N	Y
Thailand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Togo	Y	N				N										Y
Tonga	Y	N	Y	Y	N	N	Y	N	Y	Y	Y	Y	N	N	Y	Y
Trinidad & Tobago	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Tunisia	N	N			N	N					Y				Y	Y
Turkey	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Turkmenistan	N	N				N					Y				N	Y
Turks & Caicos	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Uganda	Y	N	N	N	N	N	N	N			N		N	N	N	Y
Ukraine	Y	N	Y	N	M	N	Y	N	Y	N	Y	Y	N	N	N	Y
United Arab Emirates	N	N	Y	Y	M	N	N	N	Y	Y	N	Y	Y	N	Y	Y



## Money Laundering and Financial Crimes

Actions by Governments	<i>Criminalized Drug Money Laundering</i>	<i>Criminalized Beyond Drugs</i>	<i>Record Large Transactions</i>	<i>Maintain Records Over Time</i>	<i>Report Suspicious Transactions (NMP)</i>	<i>Financial Intelligence Unit</i>	<i>System for Identifying/Forfeiting Assets</i>	<i>Arrangements for Asset Sharing</i>	<i>Cooperates w/Domestic Law Enforcement</i>	<i>Cooperates w/International Law Enforcement</i>	<i>International Transportation of Currency</i>	<i>Mutual Legal Assistance</i>	<i>Non-Bank Financial Institutions</i>	<i>Disclosure Protection "Safe Harbor"</i>	<i>Offshore Financial Centers</i>	<i>States Parties to 1988 UN Convention</i>
United Kingdom	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
United States	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Uruguay	Y	Y	Y	Y	M	N	Y	N	Y	Y	N	Y	Y	N	Y	Y
Uzbekistan	Y	Y	N	Y	N	N	N	N	Y	N	Y	Y	N	N	N	Y
Vanuatu	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Venezuela	Y	N	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Vietnam	Y	Y	N	Y	M	N	Y					Y	N	Y	N	Y
Yemen	N	N				N									N	Y
Yugoslavia FR	N	N			N	N	N	N					N	N	N	Y
Zambia	Y	N	N	N	N	N	Y				N		N	N	N	Y
Zimbabwe	Y	N	N		N	N	Y								N	Y

## Country Reports

**Afghanistan.** Afghanistan is not a regional financial or banking center. Afghanistan has no formal credit institutions, and its financial institutions are rudimentary. In the last quarter of 2001, the Central Bank stopped functioning, as did the formal financial sector. The counterfeiting of the afghan currency remained a major problem.

The proceeds of drug trafficking are generally remitted abroad using hawala. Reports indicate that illegally obtained proceeds are moved from Afghanistan to Pakistan to be laundered.

Afghanistan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Albania.** Albania remains at significant risk for money laundering because it is a transit country for trafficking in narcotics, arms, contraband, and illegal aliens. Organized crime groups use Albania as a base of operations for conducting criminal activities in other countries. The proceeds from these activities are easily laundered in Albania because of weak government controls.

Albania criminalized all forms of money laundering through Article 287 of the Albanian Criminal Code of 1995. In 2000, the International Monetary Fund (IMF) assisted Albania in drafting anti-money laundering legislation that was subsequently approved by Albania's legislature. Law No. 8610 "On the Prevention of Money Laundering" (passed May 17, 2000) requires financial institutions to report to an anti-money laundering agency all transactions that exceed approximately U.S. \$10,000. Financial institutions are required to report transactions within 48 hours if the origin of the money cannot be determined. In addition, private and state entities are required to report all financial transactions that exceed certain thresholds.

The legislation also mandates the establishment of the above referenced agency to coordinate the Government of Albania's (GOA) efforts to detect and prevent money laundering. The Agency for Coordinating the Combat of Money Laundering (ACCML) is Albania's financial intelligence unit. The ACCML falls under the control of the Ministry of Finance and is to evaluate reports filed by financial institutions. If the agency suspects that a transaction involves the proceeds of criminal activity, it must forward the information to the prosecutor's office. The law has two unusual provisions with regard to the ACCML. First, the ACCML has the ability to enter into bilateral or multilateral information sharing agreements on its own authority. Second, it has the responsibility to assess and combat emerging technologies. The legislation, however, does not mandate staffing and funding of the ACCML.

In December 2000, Albania signed the UN Convention against Transnational Organized Crime. Albania is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). As of December 2001, Albania had not ratified the European Money Laundering Convention. Albania participates in the Southeastern Europe Cooperative Initiative.

To date no money laundering cases have been prosecuted in Albanian courts and no illicit proceeds have been forfeited. The GOA should fully implement the provisions of its anti-money laundering legislation. In particular, the GOA should provide adequate legal and financial resources and support to the ACCML, its financial intelligence unit. It would also be beneficial for the ACCML to join the Egmont Group of financial intelligence units to increase its international cooperation.

**Algeria.** Algeria is not a financial center. Reportedly, there is little evidence that suggests that there are money laundering activities within the country. Currently, the Algerian government has not enacted anti-money laundering legislation nor does it have in place any procedures such as a suspicious transaction reporting system to detect money laundering. Individuals entering Algeria must declare all foreign currency to the proper customs authority.

Algeria is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

## Money Laundering and Financial Crimes

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**Angola.** Money laundering does not appear to be a significant problem in Angola because of its poorly developed financial sector. Yet the illegal trade in diamonds and the usage of diamonds as a conduit for money laundering schemes is a concern. There is also plausible evidence that there are links between the illegal diamond trade and international terrorist, drug, and/or criminal organizations. Currently, Angola is participating in efforts to launch the “Kimberly Process,” which involves establishing a global certification system for diamonds.

Angola does not have in place a set of comprehensive laws, regulations, and other procedures to detect money laundering and financial crime. Angola’s counternarcotics laws criminalize money laundering related to drug trafficking.

Angola is a party to the 1988 UN Drug Convention and a signatory to the UN Convention against Transnational Organized Crime.

**Anguilla.** Anguilla’s offshore financial sector renders it vulnerable to money laundering. As with the other United Kingdom Caribbean Overseas Territories, Anguilla underwent an evaluation of its financial regulations in 2000, co-sponsored by the local and British governments.

Anguilla’s domestic financial sector includes four domestic banks and 17 insurance companies. The Eastern Caribbean Central Bank (ECCB) supervises Anguilla’s four domestic banks. The offshore sector includes two banks, one captive insurance company, and approximately 2,792 international business companies (IBCs) and 43 trusts. IBCs may be registered using bearer shares that conceal the identity of the beneficial owner of these entities.

The Proceeds of Criminal Conduct Act (PCCA) 2000 extends the predicate offenses for money laundering to all indictable offenses and allows for the forfeiture of criminally derived proceeds. It provides for suspicious activity reporting and a safe harbor for this reporting. The Money Laundering Reporting Authority Act (MLRA) 2000 requires persons involved in the provision of financial services to report any suspicious transactions derived from drugs or criminal conduct. The MLRA establishes requirements for customer identification, record keeping, reporting, and training procedures. It also details provisions for a Reporting Authority that will receive the suspicious transaction reports required and may forward information to the police for further investigation. The Criminal Justice (International Co-operation) (Anguilla) Act 2000 enables Anguilla to directly cooperate with other jurisdictions through mutual legal assistance.

The U.S./UK MLAT concerning the Cayman Islands was extended to Anguilla in November 1990. Anguilla is also subject to the U.S./UK extradition treaty. Anguilla is a member of the Caribbean Financial Action Task Force (CFATF), and through the UK, is subject to the 1988 UN Drug Convention.

Anguilla should establish a Reporting Authority that can cooperate with foreign authorities. It should also adopt measures to ensure identification of beneficial owners of IBCs.

**Antigua and Barbuda.** While Antigua and Barbuda remains vulnerable to money laundering because of its offshore financial sector and its Internet gaming industry, the Government has enacted reforms to its anti-money laundering regime and taken concrete steps to effectively implement those reforms. In August 2001, as a result of the enactment of these new laws and their substantial implementation, both the U.S. and the United Kingdom lifted financial advisories that had been in effect since April 1999. These advisories had recommended that U.S. and UK financial institutions give “enhanced scrutiny to all financial transactions routed into or out of Antigua and Barbuda.”

In response to these advisories, in 1999 the Government of Antigua and Barbuda (GOAB) repealed the 1998 amendments to the Money Laundering (Prevention) Act (MLPA) of 1996 that had effectively strengthened bank secrecy, inhibited money laundering investigations, and infringed on international cooperation. Additional amendments were made to the MLPA in 2000 and 2001, which acted to enhance international cooperation and correct deficiencies in the asset forfeiture provisions. The GOAB plans to submit further amendments to Parliament in 2002 to create an *in rem* forfeiture system for money

laundering. In addition, the GOAB introduced a terrorism act in October 2001 that, if enacted, will allow the GOAB to seize and freeze terrorist funds.

In 2001, the GOAB inaugurated new facilities for the Office of National Drug Control and Money Laundering Policy (ONDCMLP), an office that was established in 1996. The modern multi-purpose facility houses the National Joint Headquarters, the Financial Intelligence Unit, the Financial Investigations Unit, the Drugs Intelligence Unit, and the government's Drug Control Policy Unit. During 2000 and 2001, eleven Antiguan law enforcement officials received anti-money laundering training from the Caribbean Anti-Money Laundering Program.

In 2000, the GOAB amended the International Business Corporations Act (IBCA) of 1982 in order to excise the 1998 amendments that had given the International Financial Sector Regulatory Authority (IFSRA) responsibility to both market and regulate the offshore sector as well as to allow members of the IFSRA Board of Directors to maintain ties to the offshore industry. In August 2000, the GOAB again amended the IBCA to require that resident agents ensure the accuracy of the records and registers that are kept at the Registrar's office, as well as know the names of beneficial owners of IBC and disclose such information to authorities upon request. Furthermore, in December 2000, the GOAB issued a Statutory Instrument, which has the force of law, requiring banks to establish the true identities of account holders and to verify the nature of an account holder's business, source of funds, and beneficiaries.

During 1999, 2000, and 2001, the GOAB conducted an extensive review of the offshore banking sector. As a result, 26 offshore banks had their licenses revoked, were dissolved, placed in receivership, or otherwise put out of business. Currently, Antigua and Barbuda has 21 licensed offshore banks in operation.

Like most of the other countries in the Eastern Caribbean, the GOAB does not have a unified regulatory structure or uniform supervisory practices for its financial services sector. This is due to the fact that the Eastern Caribbean Central Bank (ECCB) supervises Antigua and Barbuda's domestic banking sector, and conducts both on-site and off-site reviews of the country's financial institutions. Examiners review information related to savings and demand deposits during on-site inspections.

The IFSRA issues licenses for the offshore sector, and also conducts bank examinations. The IFSRA revoked five bank licenses in 2001. The IFSRA is also responsible for issuing licenses for international business corporations, of which there are approximately 12,000. The license application requires disclosure of the names and addresses of directors—who must be natural persons—the activities the corporation intends to engage in, and the names of shareholders and number of shares that they will hold.

Casinos and sports book-wagering operations in Antigua and Barbuda's Free Trade Zone are regulated and supervised by the Directorate of Offshore Gaming (DOG) and are required to incorporate under the IBCA. The DOG has issued Internet Gaming Technical Standards and guidelines. The 2000 and 2001 amendments to the MLPA expand its coverage to include all types of gambling entities and impose financial limit reporting on the gambling entities. These reports are to be sent to the ONDCMLP, but to date no such reports have been forwarded. It is not clear if casinos and other gaming-related entities are subject to provisions of the IBCA. The GOAB has drafted and is considering legislation and regulations for the licensing of interactive gaming and interactive wagering in order to address possible money laundering through client accounts of Internet gambling operations.

Antigua and Barbuda is a party to the 1998 UN Drug Convention, a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and a member of the Caribbean Financial Action Task Force (CFATF). In 1999, Antigua and Barbuda was the first country in the Eastern Caribbean to exchange the instruments of ratification in order to bring into force a Mutual Legal Assistance Treaty and an Extradition Treaty with the United States. In addition, Antigua and Barbuda signed a Tax Information Exchange Agreement with the United States in December 2001, which will allow the exchange of tax information between the two nations. Antigua and Barbuda signed the UN Convention against Transnational Organized Crime on September 26, 2001.

## Money Laundering and Financial Crimes

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During 2001, the GOAB continued its bilateral and multilateral cooperation in various criminal and civil investigations and prosecutions. The GOAB has provided assistance to U.S. and other countries' law enforcement and prosecutors investigating and prosecuting fraud and money laundering cases. The U.S. has made one extradition request to Antigua and Barbuda since the bilateral extradition treaty entered into force. This request, which is related to a fraud and money laundering investigation, originally made in November 1999 and resubmitted in 2001, is currently awaiting the Magistrate's decision after a length-contested hearing. Additionally, the GOAB has received substantial revenues through asset sharing as a result of its cooperation in the freezing and forfeiture of illegal assets at the request of other countries.

The GOAB should continue to fully implement and enforce all provisions of its anti-money laundering legislation, as well as to take the necessary legislative and regulatory steps to ensure that its gambling sector is covered by anti-money laundering legislation and is adequately supervised.

**Argentina.** Argentina is neither an important regional financial center nor an offshore banking center. Money laundering related to bribery, contraband, tax evasion and narcotics activities is believed to occur throughout the banking system and non-bank financial institutions.

Allegations made by an Argentine congressional committee that bankers and former government officials may have engaged in money laundering activities related to illegal arms trafficking, illicit enrichment and narcotics-trafficking shocked the Argentine public during 2001. The turmoil emphasized the critical need to move forward with implementation of a new anti-money laundering law passed in 2000 (Law 25.246). Law 25.246 expanded money laundering predicate offenses to all existing crimes included in the Penal Code, set a stricter regulatory framework for the financial sector; and created a Financial Intelligence Unit (FIU) within the Ministry of Justice and Human Rights.

Under this new law, requirements for customer identification, record keeping and reporting of suspicious transactions now apply to a wide variety of entities, including banks, currency exchange houses, casinos, securities dealers, registrars of real estate, auto dealerships, dealers in art, antiques, jewels, precious metals, and stones, stamps and coins, insurance companies, issuers of travelers checks, credit card companies, armored car companies, postal money transmitters, notaries, and certified public accountants. Law 25.246 forbids these financial institutions and businesses from notifying their clients when filing suspicious financial transactions reports, and provides a safe harbor from liability for reporting such transactions. The FIU is expected to establish reporting norms tailored to each type of business.

The FIU will receive and analyze the reports of suspicious transactions, and refer those deemed appropriate for investigation to the Public Ministry. On February 14, 2001, the GOA issued Decree 169/2001 to regulate Law 25.246 and further define the composition of the FIU that originally would have been composed of 11 members from the public and private sectors. However, on November 22, 2001, Decree 1547/2001 was issued reducing the FIU to five members. Of the five, three governmental officials have been appointed (Central Bank, National Securities Commission, and Secretariat for the Prevention of Drug Addiction—SEDRONAR); two non-governmental members are expected to be appointed by early 2002.

Prior to the passage of Law 25.246 of April 2000, the Central Bank of Argentina and the National Securities Commission had issued a series of regulations requiring certain financial institutions to know, record and report the identity of customers conducting transactions of U.S. \$10,000 or more. The regulations required these institutions to report transactions considered suspicious. The regulation was based on a list of twenty types of transactions. The Central Bank has referred over 50 cases to the office of the public prosecutor for investigation.

Additional anti-money laundering measures went into effect in January 2001 with the passage of Law 25.345, Prevention of Tax Evasion. This tax law requires all transactions of U.S. \$10,000 or more be conducted in instruments other than cash, i.e., bank draft, credit card or bank transfer. The Argentine Customs Service issued regulations to control the international transportation of currency and monetary instruments. Resolution 1172 of December 4, 2001 requires that individuals (foreign or national) entering

Argentina with currency and/or monetary instruments over U.S. \$10,000 make a declaration to the Customs authorities. Resolution 1176 of December 7, 2001, imposes similar requirements to individuals departing Argentina. The Customs authorities will then communicate the declarations to the tax authorities and the FIU.

The GOA remains active in the fight against financial crimes through its participation in diverse international fora. It is a party to the 1988 UN Drug Convention and has signed but not yet ratified the 2000 UN Convention Against Transnational Organized Crime. Argentina is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and in June 2000 became a full member of the FATF. It played a leading role in the creation of the South American FATF (GAFISUD) in December 2000, and it is the venue for the GAFISUD Executive Secretariat. Argentina and the United States have a Mutual Legal Assistance Treaty that entered into force in 1993. A new extradition treaty between Argentina and the USG entered into force on June 15, 2000. The GOA's SEDRONAR and the U.S. Treasury FinCEN exchange information in support of money laundering investigations under the terms of a memorandum of understanding signed in December 1995.

The GOA should continue to focus its efforts at implementing anti-money laundering Law 25.246 of May 2000, and should make its FIU operational in the very near future.

**Armenia.** Armenia is not a major financial center; however, high unemployment, low salaries, corruption, a large underground economy, and the presence of organized crime also contribute to Armenia's vulnerability to money laundering. Armenian authorities are generally not cognizant of the threat of money laundering and have devoted inadequate resources to combat money laundering. Schemes used to launder funds include the under-invoicing of imports, double bookkeeping, and misuse of the banking system. Armenia currently has no anti-money laundering statutes.

Armenia is a party to the 1988 UN Drug Convention. In November 2001, Armenia signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, the Convention on Cyber crime, and the European Convention on Mutual Assistance in Criminal Matters.

**Aruba.** As a transit country for cocaine and heroin, Aruba is both attractive and vulnerable to money laundering. The island has an offshore sector, with approximately 500 limited liability companies and 4,000 offshore tax-exempt companies referred to as Aruba Exempt Companies (AEC). Both types of companies can issue bearer shares. There are also 11 casinos, 6 local banks, and over 30 money transmitters and exchange offices. Money laundering is a crime in Aruba and money laundering offenses extend to all criminal offenses including tax offenses. Aruba's offshore industry constitutes about one percent of GDP and is due to be phased out by the end of 2005 as part of the Government's May 2001 commitment to the OECD in connection with the Harmful Tax Practices initiative.

Aruba offshore services include the offshore Naamloze Vennootschap (NV) or limited liability company, which is a low-tax entity, and the AEC. A local director, usually a trust company, must represent offshore NVs. A legal representative that must be a trust company represents AECs. AECs pay an annual registration fee of approximately U.S. \$280, and must have a minimum authorized capital of U.S. \$6,000. AECs cannot participate in the economy of Aruba, and are exempt from several obligations: all taxes and currency restrictions, and from filing annual financial statements. Trust companies provide a wide range of corporate management and professional services to AECs, including managing the interests of its shareholders, stockholders, or other creditors. In May 2000, the Government of Aruba (GOA) issued guidance notes on corporate governance practices.

All financial and non-financial institutions are obligated to report unusual transactions to Aruba's financial intelligence unit (FIU), the Meldpunt Ongebruikelijke Transacties (MOT). The MOT has a staff of six that consists of one director, three investigators, and two administrative assistants. This small unit is required to inspect all casinos, banks, money remitters, and insurance companies. On July 1, 2001, a State Ordinance was issued that extended reporting and identification requirements to casinos and insurance

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companies. The MOT will begin on-site casino inspections in late 2002. The State Ordinance on the Supervision of Insurance Business (SOSIB) and the Implementation Ordinance on SOSIB require insurance companies established after July 1, 2001 to obtain a license from the Central Bank of Aruba.

In October 2000, a State Ordinance was enacted requiring life insurance agents to report unusual transactions based on indicators. A law that will require life insurance agents to report SARs has been presented to the Minister of Finance and Justice and is expected to be enacted in 2002. The MOT will also have the supervision of life insurance companies and the brokers. The MOT has drafted indicators for the life insurance companies and brokers and intends to require the reporting of unusual transactions in the first quarter of 2002.

In June 2000, Aruba enacted a State Ordinance making it a legal requirement to report the importation and exportation via harbor and airport of currency in excess of 20,000 Aruban guilders (approximately U.S. \$11,000). The GOA is currently working on having the law implemented by April 2002.

The GOA has prepared a State Ordinance for the Supervision of Trust Companies. The draft ordinance, which was submitted to parliament on January 23, 2001, provides for the oversight of thrift companies to ensure that they follow “Know Your Customer” procedures. The International Monetary Fund (IMF) is also reviewing the draft ordinance. The draft ordinance is expected to become effective during 2002.

Working with the IMF, the GAO completed the first phase of a voluntary assessment of its offshore sector and is engaged in the second phase.

Following up on the July 4, 2000 Parliamentary approval of the State Ordinance Free Zones Aruba (FZA), in July 2001 the Parliament unanimously approved the designation of Free Zone Aruba NV entity to operate the free zones. One aspect of this designation requires free zone customers to reapply for authorization to operate within the zones. The Free Zone NV is preparing a “Best Practices” guide describing these standards for its companies. Aruba took the initiative in the Caribbean Financial Action Task Force (CFATF) to develop regional standards for free zones, where none existed, in an effort to control trade-based money laundering. The guidelines were adopted in April 2001 at the CFATF Plenary, and in October the CFATF Ministerial Council followed. As a result, the tougher standards resulted in a 65 percent drop in free zone business.

On August 31, 2000, the United States signed a multilateral directive with Aruba, Colombia, Panama, and Venezuela to establish an international working group to fight the money laundering that occurs through the Black Market Peso Exchange (BMPE). The BMPE is the largest money laundering system in the Western Hemisphere, and the primary money laundering method used by Colombian drug cartels. The working group has developed policy options and recommendations to enforcement actions that will prevent, detect, and prosecute money laundering through the BMPE. The first working group meeting was held in Aruba on October 21, 2000 and was chaired by the director of the Aruba Free Zone. Aruba has regularly attended working group meetings, which were held in April, October and December of 2001. It is expected that a final set of recommendations on the BMPE will be reached in 2002.

In 2001 several persons were convicted of money laundering offenses. Currently, two cases are pending.

Aruba, which has autonomous control over its internal affairs, is a part of the Kingdom of the Netherlands, and through the Netherlands, Aruba participates in the Financial Action Task Force (FATF) and therefore participates in the FATF mutual evaluation program. The GOA has a local FATF Committee that oversees the implementation of the FATF recommendations. As part of its commitment to combat the financing of terrorism, another committee has been formed to ensure cooperation within the Kingdom of the Netherlands. Aruba is a member of CFATF and served as its Chairman in 2001.

In 1999, the Netherlands extended application of the 1988 UN Drug Convention to Aruba. The Netherlands’s Mutual Legal Assistance Treaty with the United States applies to Aruba, though it is not applicable to requests for assistance relating to fiscal offenses addressed to Aruba.

The MOT is a member of the Egmont Group. A draft law, which would authorize the MOT to share information with foreign counterpart organizations with a Memorandum of Understanding (MOU), is now with the central committee. In June 2001, the MOT signed an agreement with the FIUs of the Netherlands and the Netherlands Antilles to exchange information.

Aruba's anti-money laundering legislation adheres to the recommendations of FATF and the CFATF. The GOA has shown a commitment to combating money laundering by establishing a solid anti-money laundering program. The GOA should provide adequate resources to the MOT to enable it to properly carry out its mission of analyzing unusual transactions and conducting on-site inspections of all financial and non-financial institutions.

**Australia.** The Government of Australia (GOA) has put in place a comprehensive system to detect, prevent and prosecute money laundering. The major sources of illegal proceeds are fraud and drug trafficking. It is likely that the volume of money currently laundered in Australia, or by Australians using offshore financial centers, has increased from the \$2.8 billion dollar estimate provided by a government sponsored study in 1995.

Australia criminalized money laundering related to serious crimes with the enactment of the Proceeds of Crime Act of 1987. This legislation also contains provisions to assist investigations and prosecution in the form of production orders, search warrants and monitoring orders. The Mutual Assistance in Criminal Matters Act of 1987 allows Australian authorities to assist other countries in identifying, freezing, seizing, and confiscating the proceeds of crime. The Financial Transaction Reports Act (FTR) of 1988 was enacted to combat tax evasion, money laundering and serious crimes. The FTR established reporting requirements on Australia's financial services sector. Required to be reported are: suspicious transactions; cash transactions in excess of Australian \$10,000; and international funds transfers equivalent to or exceeding Australian \$10,000. The Australian Transaction Reports and Analysis Center (AUSTRAC), Australia's financial intelligence unit (FIU), was established under the FTR to oversee compliance with the reporting requirements imposed on the financial services sector. AUSTRAC also gathers and disseminates financial intelligence that supports revenue collection and law enforcement activities.

Australia is a member of the Financial Action Task Force (FATF), the Asia/Pacific Group on Money Laundering (APG), the Pacific Island Forum and the Commonwealth Secretariat. Through its funding and hosting of the Secretariat of the APG, Australia has elevated money laundering issues to a priority concern among countries in the Asia/Pacific region. AUSTRAC is a member of the Egmont Group, and has bilateral agreements allowing the exchange of financial intelligence with the United States, the United Kingdom, New Zealand, Belgium, France, Hungary, Denmark, The Netherlands, and Italy. In September 1999, a Mutual Legal Assistance Treaty between Australia and the United States entered into force.

Australia has signed and ratified the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the 1988 UN Drug Convention. Australia signed but has not yet ratified the UN Convention against Transnational Organized Crime.

Australia continues to pursue a well-balanced, comprehensive and effective anti-money laundering regime that meets the objectives of the FATF Forty Recommendations. It gives high priority to dealing with money laundering and to international cooperation. AUSTRAC serves as a model for FIUs worldwide because of its demonstrated commitment and competence in using financial reports and related information to identify money trails. The GOA should continue in its efforts to emphasize money laundering issues and trends within the APG, and continue to provide training and technical assistance to the Asia/Pacific region.

**Austria.** Although Austria is not a major financial center, it does have a significant money laundering problem as illicit proceeds of economic crimes originating in the former Soviet Union and East European countries continue to flow into its banks. , Austria's financial intelligence unit, the Central Department for Combating Organized Crime (EDOK), stated in December 2000 that the smuggling of bulk cash is a major method of laundering money in Austria and that Austrian Customs officials have uncovered several



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instances in which criminals were attempting to bring in major amounts of cash. Recent police investigations have also revealed that trusts, especially offshore trusts, were being used to conceal the proceeds of crime and that Russian organized criminal groups have reportedly established front and shell companies through Austrian fiduciaries to launder money.

The existence of anonymous passbook savings accounts spurred the Financial Action Task Force (FATF) to threaten Austria with suspension from FATF if the government did not take action to abolish the accounts. The threat of suspension followed FATF's issuance of a public warning to financial institutions of the risks that are associated with Austrian anonymous passbook savings accounts. In response, the Government enacted legislation that will effectively eliminate anonymous passbook savings accounts by June 2002. No new accounts have been permitted since early November 2000. In response the FATF lifted its warning about the anonymous passbook savings accounts.

Other measures to prevent money laundering included the Ministry of Finance sending a circular to Austrian banks advising them to use special diligence in splitting passbook account balances—except among family members—exceeding AS one million (approximately U.S. \$75,000). Austrian banks are required to continue exercising this enhanced diligence until anonymous accounts are completely phased out in June 2002. The Government of Austria (GOA) has emphasized that although funds may be withdrawn without identification during the phasing-out period, banks (as well as insurers and bureaux de change) must report suspicious transactions in any amount.

Money laundering was criminalized in 1993. Adoption of the Banking Act of 1994 created obligations for the financial sector such as customer identification, record keeping requirements, and training employees and staff. The Banking Act created EDOK within the police, which serves as the central repository of suspicious transaction reports. In 1996 Austria abolished anonymous securities accounts, in compliance with the FATF Forty Recommendations and European Union (EU) regulations (although customers can continue to make withdrawals and sales from these accounts without identification until June 2002.) In 1997, the GOA tightened restrictions on trustee accounts.

Legislation implemented in 1999 allows for asset seizure and the forfeiture of illegal proceeds, however there is little evidence of enforcement to date. 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 legislation that provides for sharing narcotics-related assets with other governments. However, mutual legal assistance treaties (MLATs) can be used as an alternative vehicle to achieve equitable distribution of forfeited assets. The MLAT that has been in force since August 1, 1998 between the GOA and the United States contains a provision relating to asset sharing. The GOA has been extremely cooperative with U.S. law enforcement investigations. Austria has a bilateral agreement with Hungary concerning the exchange of information related to money laundering. Austria 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 of 1990. In December 2000 Austria signed the UN Convention against Transnational Organized Crime. Austria is a member of the FATF and the EU. The EDOK is a member of the Egmont Group.

The GOA should continue to develop a comprehensive anti-money laundering regime. By enacting legislation to eliminate anonymous passbook accounts, the GOA has taken an important step toward combating money laundering. The GOA should ensure full implementation of this new law.

**Azerbaijan.** Azerbaijan's is not a money laundering concern, as the banking system is rudimentary. Recently, Azerbaijan's parliament has made amendments to its banking laws in order to prevent money laundering activities. These new regulations stipulate that any person leaving or entering the country with up to \$50,000 in foreign currency must report the amount to customs. If an individual wishes to take more than \$50,000 into the country, the origin of the funds must be declared. Yet Azerbaijan does not have a set of laws that addresses directly money laundering. Available information also suggests that non-

bank financial institutions probably are used to launder money related to tax evasion and avoidance of customs fees.

The National Bank of Azerbaijan (NBA) has officially accepted the directive of the Wolfsburg principles to combat money laundering and in 2001 Azerbaijan signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

Azerbaijan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Bahamas.** The Commonwealth of The Bahamas (GCOB) is an important regional and offshore financial center. During 2001, the GCOB focused on implementing legislative reforms, enacted in December of the previous year, that strengthened its anti-money laundering regime and made it much less vulnerable to exploitation by money launderers and other financial criminals. In June, the Financial Action Task Force (FATF) removed The Bahamas from the FATF list of jurisdictions that were “non-cooperative in the fight against money laundering.” The U.S. and Canada also withdrew financial advisories on The Bahamas.

Offshore banking and finance is the second most important industry in The Bahamas, ranking behind tourism. At the beginning of 2001, there were 410 licensed bank or trust companies. By July this number had declined to 366 as the Central Bank of The Bahamas required “managed banks” (those without a physical presence, but are run by an agent such as a lawyer or another bank) to either establish a physical presence in The Bahamas (an office, separate communications links and a resident director) or cease operations. Approximately, 233 of the 366 institutions were permitted to deal with the public and 133 had either restricted or non-active licenses. Of the public institutions, only 48 were Bahamian-based banks and trusts; 105 were subsidiaries of banks and trusts based in Switzerland (25), the UK (13), the USA (9), Canada (3), Latin America and the Caribbean (31), Europe (21), and Asia (3); 58 were Euro-currency branches of foreign banks and trusts based in the USA (19), the UK (6), Canada (3), Europe (13), South and Central America (10) and Asia (5); and 24 were clearing banks or trusts based outside The Bahamas and authorized to deal in Bahamian and foreign currency and gold.

During early 2001, the newly created Financial Intelligence Unit (FIU) began sharing financial information with its foreign counterparts. In June, the U.S. financial intelligence unit, the Financial Crimes Enforcement Network (FinCEN), sponsored the successful application of the Bahamian FIU for membership in the Egmont Group. In November, a Bahamian Supreme Court justice struck down as unconstitutional a provision of the FIU Act 2000 that gave the FIU the power to freeze a financial account without first obtaining a court order. The justice ruled that Parliament had violated the principal of separation of powers by giving an executive body a power that should be reserved to the judiciary. This case involved a British Virgin Islands firm, Financial Clearing Corporation. The Bahamian Attorney General announced that the GCOB would appeal the controversial decision. In the meantime, the functioning of the FIU is not expected to be weakened, since the FIU can seek ex-parte freeze orders from the courts whenever necessary.

Following the September 11 terrorist attack on the United States, the Attorney General directed the FIU to freeze three financial accounts, in The Bahamas, suspected of belonging to individuals on the UN and USG lists of terrorists, financial supporters of terrorist organizations, and officials of Afghanistan’s Taliban regime. The Attorney General’s Office, the FIU, and the Central Bank cooperated with FinCEN and other USG officials in investigating and clearing the suspect accounts.

The Financial Transaction Reporting Act 2000 required financial institutions (including banks and trusts, insurance companies, real estate brokers, casino operators, and others who hold or administer accounts for clients) to report suspicious transactions to the FIU and to the police. From January through November the FIU received 218 suspicious transaction reports (more than the number received by GCOB authorities in 1999 and 2000 combined), including 96 from domestic banks and 108 from the offshore sector.

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That Act also established “Know Your Customer” (KYC) requirements for financial institutions and obliged them to verify by December 31, 2001 the identities of all their existing account holders and of customers without an account making transactions over \$10,000. In mid-December 2001, the chief legal advisor to the Bahamas Financial Services Board estimated that The Bahamas had completed between 80 to 95 percent of the KYC requirement for old accounts. Funds in accounts that remain unidentified or whose owners fail to comply with documentation requirements will be transferred to the Central Bank after the deadline. Amendments to the Act passed in August allowed the Minister of Finance discretion to extend the deadline for six months to a year; in December he extended the deadline until the end of June 2002. All new accounts established in 2001 had to be in compliance with KYC rules before they were opened. The KYC requirements caused complaints by Bahamians who were unable to produce adequate documentation when attempting to open accounts in domestic banks. (The absence of house numbers on most Bahamian streets, the prevailing practice of utility companies issuing bills only in the name of landlords rather than tenants, and the scarcity of picture identification among Bahamians contributed to these documentation problems.)

The Central Bank of The Bahamas Act 2000 expanded the powers of the Central Bank to enable it to respond to requests for information from overseas regulatory authorities and gave the Bank’s Governor the right to deny licenses to banks or trust companies he deems unfit to transact business in The Bahamas. The primary impact on the offshore sector has been the weeding out of many of the “managed” or “shell” banks that had no actual physical presence in The Bahamas. During 2001, the Governor revoked the licenses of 55 of these banks, including the British Bank of Latin America and Federal Bank, both identified in a U.S. Senate Report as being at high risk of involvement in money laundering, and Al-Taqwa Bank, which was listed in October by the USG as financially linked to Osama Bin Laden’s Al-Qaeda terrorist organization. Of the 340 managed banks at the beginning of 2001, the Central Bank expects less than half to remain by March 2002.

At the beginning of 2001, there were some 100,000 incorporated international business companies (IBCs) in The Bahamas. The IBC Act 2000 eliminated anonymous ownership of IBCs by prohibiting bearer shares and imposing KYC requirements. As a result, The Bahamas became less attractive, both to potential and existing IBC owners. During the first nine months of 2001, the number of new IBCs registered in The Bahamas was down to 4,148, compared to 14,454 during the same period of 2000, a 71 percent decline. The Governor of the Central Bank estimated that 80 percent of existing IBCs failed to renew their registrations during 2001.

The Bahamas has two casinos in Nassau and one in Freeport/Lucaya. A fourth casino is scheduled to open in Lucaya in 2002, and a license for a fifth casino, on San Salvador, has been approved. Annual revenues for the three existing casinos are estimated at \$196 million. Cruise ships that overnight in Nassau may operate casinos. Betting in casinos on sporting events is allowed, except on horse races. There are no Internet gambling sites based in The Bahamas. Law prohibits Bahamian residents from gambling.

As of March, there were 55 local insurers and 30 offshore insurance companies in The Bahamas. At the beginning of 2001 there were 757 Bahamas-based mutual funds (up 20 percent from 628 at the start of 2000) with a net asset value of \$95 billion. The Bahamas International Securities Exchange (BISX) lists three of the aforementioned funds.

Money laundering in The Bahamas is probably related primarily to the proceeds of cocaine and marijuana trafficking, although a substantial portion is likely related to financial fraud. The Bahamas’ first major money laundering conviction (against Latoya Cargill and Victor Wilkinson) was in December 2001 and involved a total of \$241,000 in drug trafficking proceeds. In November, the GCOB obtained an ex-parte court order freezing some \$973,000 in bank accounts held by notorious international drug trafficker, Samuel “Ninety” Knowles, Jr., whom the U.S. is seeking to extradite from The Bahamas. Another major money laundering case is that of prominent Bahamian attorney Leslie Vernon Rolle, who is charged with financial fraud of 1.7 million. Prosecution is awaiting information from the Cayman Islands and is scheduled for trial in the Supreme Court in 2002.

In June 2001, the Bahamas became a member of the Egmont Group. The Bahamas is party to the 1988 UN Drug Convention, a member of Caribbean Financial Action Task Force, and the Offshore Group of Banking Supervisors. The Attorney General has established an International Affairs Unit to deal specifically with mutual legal assistance matters. The Bahamas has a Mutual Legal Assistance Treaty with the United States, which entered into force in 1990, and also with the United Kingdom and Canada. In April 2001, the Bahamas signed the UN Convention against Transnational Organized Crime.

The GCOB has enacted substantial reforms that could reduce its financial sector's vulnerability to money laundering. The GCOB should continue to further its anti-money laundering efforts with the enforcement of the new laws and international cooperation.

**Bahrain.** Bahrain is a regional financial and an offshore center that poses as an attractive potential target for money laundering activities. Some common sources of illegal proceeds in Bahrain are narcotics-trafficking, fraud, and evasion of international sanctions. However it is thought that the greatest risk of money laundering stems from the foreign criminal proceeds that transit Bahrain.

In January 2001, the Government of Bahrain (GOB) enacted a new anti-money laundering law that criminalized the laundering of proceeds derived from any predicate offense. A UK law firm in consultation with the Financial Action Task Force (FATF) drafted the law (Decree Law No. 4 of 2001). The law stipulates punishment of up to seven years in prison and a fine of up to one million dinars (U.S. \$2.65 million) for convicted launderers and those aiding or abetting them. If organized criminal affiliation, corruption, or disguising the origin of proceeds is involved, the minimum penalty is a fine of at least 100,000 dinars (approximately U.S. \$265,000) and a prison term of no less than one year. The law places the burden of proof on the accused to demonstrate the legality of the source of his funds.

Following enactment of the Law, the Bahrain Monetary Agency (BMA) as the principal regulator, issued regulations requiring financial institutions to report suspicious transactions, to maintain records for a period of five years, and to provide ready access to account information to law enforcement officials. Immunity from criminal or civil action is given to those who report suspicious transactions. Even prior to the enactment of the new anti-money laundering law, financial institutions were obligated to report suspicious transactions greater than 10,000 dinars (approximately U.S. \$26,500) to the BMA.

The new law also provided for the formation of an interagency committee to oversee Bahrain's anti-money laundering regime. Accordingly, in June 2001, the National Anti-Money Laundering Policy Committee was established and assigned the responsibility for developing anti-money laundering policies and guidelines. The committee includes members from the Bahrain Monetary Agency, the Bahrain Stock Exchange, and the Ministries of Finance, Interior, Justice, and Commerce. In addition, a new unit is to be created within the BMA to receive and analyze suspicious transaction reports, thus serving as Bahrain's financial intelligence unit (FIU). The unit will then forward the reports to the appropriate enforcement and supervisory agencies for investigation, if appropriate. Finally, the new law provides further powers of confiscation and allows for better international cooperation.

Bahrain has 19 commercial banking institutions—seven locally incorporated and 12 subsidiaries of foreign banks and 33 investment banks. Bahrain is known for its offshore banking units (OBUs), which currently number 48. The BMA licenses offshore banking units, which are branches of international commercial banks exempted from foreign-exchange controls, cash reserve requirements, taxes on interest paid to depositors, and banking income taxes that are required of other banks in Bahrain. In exchange for these privileges, OBUs pay the government annual license fees, are prohibited from accepting deposits from citizens and residents of Bahrain, and must refrain from transactions involving Bahraini dinars. The OBUs are required by law to be audited yearly by outside firms, to be fully staffed with a majority of the staff being Bahrain nationals, to have books and records available for examination by the BMA at all times, and to submit statistical reports to the BMA twice yearly.

Bahrain law permits the formation of offshore resident companies and offshore non-resident companies, which are formed as international business companies (IBCs). Resident companies must have an office

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within Bahrain, a minimum capital of U.S. \$54,000, and a license from the BMA in order to conduct financial activities. Offshore non-resident companies do not have to maintain an office in Bahrain. Instead, the company can maintain a resident address at an appointed auditing firm or a law firm within Bahrain. The minimum amount of capital for a non-resident company is U.S. \$6,750. Non-resident IBCs cannot participate in insurance or other financial activities. Registration of an IBC can take as little as seven days, and there are no restrictions on remittances sent abroad. Bearer shares are not permitted in resident or non-resident IBCs.

Bahrain is a member of the Gulf Cooperation Council, which is a member of the FATF. In June 2000, Bahrain underwent a FATF mutual evaluation. Bahrain is also a member of the Offshore Group of Banking Supervisors and has agreed to undergo a mutual evaluation by this body. Bahrain is a party to the 1988 UN Drug Convention.

Bahrain has undertaken a number of steps demonstrating a commitment to put in place an anti-money laundering regime. Now the Government of Bahrain needs to follow through by enforcing the law and developing and prosecuting anti-money laundering cases. Bahrain should also take steps to establish its FIU, and should continue to monitor its offshore sector. Implementation is crucial to making Bahrain more secure against international crime.

**Bangladesh.** Bangladesh is not a regional financial center. Money laundering in Bangladesh is primarily related to income tax evasion, the illegal importation of consumer goods, and illegal money transfers.

The government has the authority to confiscate assets in drug-related money laundering cases. In March 2001, the Bangladesh Bank finalized a draft money laundering law. The Bangladesh Bank also proposed that a Financial Intelligence Unit be formed. To date, this law has not been passed. Bangladesh's banking regulations are weak and sporadic. Strict currency controls, coupled with the fact that the Bangladesh Taka has no value outside the country, discourage the removal of laundered money from the country. Corruption among officials is believed to be high.

Bangladesh is a party to the 1988 UN Drug Convention, and is a member of the Asia/Pacific Group on Money Laundering.

**Barbados.** The Government of Barbados (GOB) has taken a number of steps in recent years to strengthen its anti-money laundering regime.

The Money Laundering (Prevention and Control) Act (MLPCA) 1998 criminalized the laundering of proceeds from unlawful activities that are punishable by at least one-year imprisonment. The MLPCA made money laundering punishable by a maximum of 25 years in prison and a maximum fine of Barbadian (BB) \$2 million (approximately U.S. \$1 million). The law also provided for asset seizure and forfeiture.

In November 2001, the GOB amended its financial crimes legislation to shift the burden of proof to the accused to demonstrate that property in his/her possession or control is derived from a legitimate source. Absent such proof, the presumption is that such property was derived from the proceeds of crime. The law also enhances the GOB's ability to freeze bank accounts and to prohibit transactions from suspect accounts.

The MLPCA 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 their customers, cooperate with domestic law enforcement investigations, maintain records of all transactions exceeding BB \$10,000 (approximately U.S. \$5,000), and report suspicious transactions to the Anti-Money Laundering Authority (AMLA). The AMLA forwards this information to the Commissioner of Police if it has reasonable grounds to suspect money laundering. Financial institutions must also establish internal auditing and compliance procedures. The MLPCA also sets forth seizure and criminal forfeiture procedures.

The AMLA was established in August 2000 to supervise financial institutions' compliance with the Act and issue training requirements and regulations for financial institutions. The AMLA's financial intelligence unit (FIU) was established in September 2000. The FIU is now fully staffed and operational.

The GOB initially criminalized drug money laundering in 1990 through the Proceeds of Crime Act, No. 13, which also authorized asset confiscation and forfeiture, permitted suspicious transaction disclosures to the Director of Public Prosecutions, and exempted such disclosures from civil or criminal liability. In 1997, the Central Bank issued Anti-Money Laundering Guidelines for Licensed Financial Institutions.

The Offshore Banking Act (1980) gives the Central Bank authority to supervise and regulate offshore banks, in addition to Barbados's seven domestic commercial banks. Barbadian, Canadian-parent, and United Kingdom-parent banks operate on equal terms in Barbados. 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. Barbados' offshore sector includes approximately 55 offshore banks, 4,000 international business companies (IBCs), 370 exempt insurance companies, and 2,900 foreign sales corporations (FSCs)—specialized companies that permit persons to engage in foreign trade transactions from within Barbados. The Foreign Sales Corporation Act, which authorized establishment of FSCs, was repealed in 2000.

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. Bearer shares are not allowed, and financial statements of IBCs are audited if total assets exceed U.S. \$500,000.

Barbados has bilateral tax treaties that eliminate or reduce double taxation with the UK, Canada, Finland, Norway, Sweden, Switzerland, and the U.S. The treaty with Canada allows IBCs and offshore banking profits to be repatriated to Canada tax-free after paying a much lower tax in Barbados. As a result, the Barbadian offshore financial services industry continues to expand, driven largely by Canadian-based companies.

A Mutual Legal Assistance Treaty and extradition treaty between the United States and Barbados entered into force in 2000. Barbados is a member of the Offshore Group of Banking Supervisors, the Caribbean Financial Action Task Force, and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Barbados is a party to the 1988 UN Drug Convention. Barbados signed the UN Convention Against Transnational Organized Crime in September 2001.

The GOB should maintain strict control over vetting and licensing of offshore entities. The establishment of the AMLA and continued development of the AMLA's financial intelligence unit should provide Barbados with the necessary tools 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.** The absence of anti-money laundering laws or regulations makes Belarus vulnerable to money laundering. Banks are more inclined to focus on protecting the secrecy of their clients than on discovering and reporting irregular or unaccounted-for deposits. The growing number of casinos also could become venues for money laundering.

Belarus faces problems with organized crime that plague other countries of the former Soviet Union. The lack of anti-money laundering laws could lead organized crime to engage in more substantial money laundering in Belarus.

Belarus is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

Belarus should enact comprehensive anti-money legislation.

## Money Laundering and Financial Crimes

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**Belgium.** Belgium has a very comprehensive anti-money laundering regime. Despite this, Belgium's financial system remains vulnerable to money laundering. Most of the money laundering cases detected in Belgium are related to narcotics-trafficking, particularly with neighboring countries the Netherlands, Luxembourg, Germany and France. The main money laundering venues are bureaux de changes, international fund transfers and payments, and payments into accounts. Funds are also laundered through the diamond industry, real estate, offshore companies, gambling or amusement halls, and banks. Belgian officials noted in mid-2001 that "dummy companies", or front companies, figured prominently in cases turned over to legal authorities for prosecution for money laundering. They also state that money launderers attempt to use notaries to found such companies or to buy property. They use such methods as selling property below its market value, making significant investments on behalf of foreign nationals with no connections to Belgium, making client property transactions whose value is disproportionate to the socio-economic status of the client, and founding a large number of companies in a short space of time.

According to the Belgian annual report, the Financial Information Processing Center (CTIF-CFI), Belgium's financial intelligence unit (FIU), is currently investigating several cases of terrorist financing-related money laundering. These have involved both apparently legitimate sources (involving businesses acting as fronts or collected from associations with purported social, charitable or cultural purposes) and illegal ones (involving illegal drugs or arms trafficking).

The Government of Belgium (GOB) in 1990 criminalized money laundering related to all crimes. In 1993, it passed additional legislation that mandated reporting of suspicious transactions by financial institutions and created an FIU to receive, process, and analyze them. As of June 2001, the CTIF-CFI had created 10,160 distinct case files since becoming operational in 1993, including 2,066 between July 2000 and June 2001. Approximately half of the July 2000-June 2001 case files were turned over to the Crown Prosecutor.

Belgian financial institutions are required to maintain records on the identities of clients engaged in transactions that are considered suspicious, or that involve an amount equal to or greater than EUR 10,000 (approximately U.S. \$9,100). Financial institutions also are required to train their personnel in the detection and handling of suspicious transactions that could be linked to money laundering. No civil, penal, or disciplinary actions can be taken against institutions or individuals for reporting such transactions in good faith. Infractions against non-reporting and compliance with other requirements of the 1993 law are punishable by a fine of up to BF 50 million (about U.S. \$1 million).

In 1998 and 1999, the GOB adopted legislation that mandates the reporting of suspicious transactions by notaries, accountants, bailiffs, real estate agents, casinos, cash transporters, external tax consultants, certified accountants, and certified accountant-tax experts. Under the new legislation, casinos include any establishments that conduct casino-like gambling activities. The CTIF-CFI noted in mid-2001 that it had observed a market increase in casino chip purchasing operations that it believed was linked to the third stage—integration—of the money laundering cycle.

The Federal Police have primary responsibility for investigating money laundering in Belgium. However, the Gendarmerie also can investigate money laundering if the predicate offense is one over which the Gendarmerie has jurisdiction.

Belgium is a member of the Financial Action Task Force (FATF) and the European Union. Belgium is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. Belgium has a Mutual Legal Assistance Treaty with the United States, which entered into force on January 1, 2000. The GOB exchanges information with other countries through international treaties and with foreign FIUs that have secrecy obligations similar to those of the CTIF/CFI. The CTIF-CFI is member of the Egmont Group.

**Belize.** Belize's proximity to Mexico and Guatemala has made it a significant transshipment point for illicit drugs, notably cocaine and marijuana. Belize's growing offshore sector has 2 banks, an unknown number of international trusts, over 15,000 international business companies (IBCs), and an Internet

gaming site. The transshipment of drugs and the growing offshore sector, regulated by those who promote it, make Belize vulnerable to money laundering.

The Money Laundering Prevention Act (MLPA), in force since 1996, criminalizes money laundering related to many serious crimes including arms and drug trafficking, fraud, extortion, terrorism, blackmail, and certain theft involving more than \$10,000. The Act also provides mechanisms for the freezing and forfeiture of assets; mandates reporting of suspicious transactions by banks and non-bank financial institutions; specifies penalties for banks, non-bank financial institutions and intermediaries who assist and collaborate in money laundering; and authorizes international cooperation in money laundering cases. Additionally, persons departing Belize must declare B\$20,000 or more in cash or negotiable bearer instruments.

Financial institutions are required to report complex, unusual, or large business transactions to the Governor of the Central Bank. Supporting Regulations and Guidance Notes were issued in 1998. The Central Bank forwards any reports warranting further investigation to the Director of Public Prosecutions (DPP) Office. Financial institutions are required to retain records for a minimum of five years, and can lose their licenses and face a maximum fine of U.S. \$50,000 for failing to do so. Individual bankers can be held responsible if their institutions are caught laundering money. However, bankers are protected from prosecution if they cooperate with law enforcement. Financial institutions must also comply with instructions from the Central Bank, and permit the Supervisory Authority to enter and inspect records.

The gaming industry is not regulated under the MLPA. Neither the Gaming Control Act, 1999 nor the Computer Wagering Licensing Act, 1995 require reporting of suspicious activity reports. The Government of Belize (GOB) has established legislation that facilitates computer and casino gaming; however, the legislation makes no provision for due diligence procedures, record keeping, or suspicious transactions reporting.

The International Financial Services Commission (IFSC) serves as the regulator for Belize's offshore sector. Members of the IFSC consist of individuals from the private and public sector. The IFSC promotes, protects, and enhances Belize as an offshore center. It also regulates and supervises the provision of international financial services within Belize through formulation of appropriate policies and the provision of advice to government on regulatory matters. The IFSC does not regulate domestic and offshore banks that are supervised by the Central Bank.

IBCs are regulated under the International Business Companies Act of 1990 and amendments to the Act issued in 1995 and 1999. The 1999 amendment to the IBC Act allows properly licensed IBCs to operate as banks and insurance companies. Registered agents have primary responsibility for the registration and on-going operations of the IBCs registered in Belize. There is no legal requirement for identification of beneficial ownership or directors of IBCs to be disclosed to the registrar. IBCs can issue bearer shares. Currently, the International Financial Services Commission is in the process of formulating policies that will be legally binding to control the mobilization of bearer shares.

The Offshore Banking Act, 1996 (OBA) governs activities of Belize's offshore banks. The Act generally prohibits offshore banks from transacting business with residents of Belize. There are minimum capital requirements under the OBA and the shares of offshore banks must be in registered form and not in bearer form. Offshore banking licenses are granted by the Minister of Finance on the recommendation of the Central Bank, which has supervisory powers over both domestic and offshore banks. With regard to the offshore banks, the supervisory role of the Central Bank is restricted to the licensee's operations in Belize. The Central Bank has no access to information regarding a customer, depositor or transaction, except in case of large credit exposures.

Offshore trusts are also prevalent in Belize and registration with a regulatory body is not required. Although the Central Bank is the supervisory authority with regard to money laundering, there are no legal requirements to provide account information or activity regarding trusts to the Central Bank. As of December 2001, the GOB was selling economic citizenships.



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Belize's Police Department (BPD) has assigned five persons to investigate money laundering cases. This unit will serve as the financial intelligence unit. An office space, separate from the police department, has been designated for this unit.

Belize is a party to the 1988 UN Drug Convention. Belize is a member of the Caribbean Financial Action Task Force and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The United States and Belize have signed a Mutual Legal Assistance Treaty (MLAT) in September 2000, but it is not yet in force.

The GOB will remain vulnerable to money launderers as long as IBCs can issue bearer shares without disclosure of the beneficial owner. The GOB should monitor the Internet and casino gaming industry and require suspicious activity reporting to prevent potential money launderers. Additionally, the GOB should provide the financial intelligence unit sufficient resources and staff needed to receive, analyze, and disseminate suspicious transaction reports.

**Benin.** Benin is not a major financial center. However, Government of Benin officials believe narcotics traffickers use Benin to launder profits. Although the exact nature of money laundering is unknown, Beninese officials suspect that the primary methods are through the purchase of assets such as real estate, the wholesale shipment of vehicles or items for resale, and front companies. In addition, some laundering seems to occur through the banking system.

A 1997 counternarcotics law criminalizes narcotics-related money laundering, and provides penalties of up to 20 years in prison as well as substantial fines. The law requires that all financial institutions report transactions they believe may be narcotics-related; they enjoy safe harbor protection if they do so. Financial institutions that fail to comply are subject to prison terms for their officials and fines. However, the government has not taken any significant steps to address the problem of money laundering not related to narcotics-trafficking.

Benin is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. In 2001 Benin signed the International Convention for the Suppression of the Financing of Terrorism.

**Bermuda.** Bermuda has a large offshore financial services sector that may be attractive to money laundering. However, the Government of Bermuda has taken a number of measures to aid in the detection, investigation, and prosecution of financial crimes. As with the other British Caribbean Overseas Territories, Bermuda underwent a thorough evaluation of its financial regulation in 2000, co-sponsored by the local and British governments.

The nearly 1,300 insurance (mainly captive and reinsurance) companies in Bermuda dominate the territory's offshore financial sector. The sector also has approximately 12,000 "exempt companies" (international business companies) and 34 licensed trust companies. The Bermuda Monetary Authority (BMA) is the main regulator and requires disclosure and vetting of proposed beneficial owners before registering exempt companies. The government passed The Regulation of Trust Business Act of 2001, which strengthened oversight of trust companies.

The Proceeds of Crime Act 1997 criminalizes money laundering related to all "relevant offenses," including drug trafficking, corruption, counterfeiting, fraud, theft, forgery, and tax evasion. The Proceeds of Crime (Money Laundering) Regulations 1998 contain a number of obligations for regulated institutions, including customer identification, record keeping, and reporting of suspicious transactions. The government also issued guidance notes in 1998 to assist financial institutions to recognize suspicious transactions and comply with their obligations.

The Financial Investigation Unit (FIU), within the Bermuda Police Service, serves as Bermuda's financial intelligence unit. It receives, analyzes, and investigates suspicious activity report (SARs). Through the end of 1999, the unit had received approximately 1,885 SARs, most of which relate to the conversion of local drug profits to U.S. dollars. The FIU is a member of the Egmont Group.

Bermuda is subject to the US/UK MLAT and to the US/UK extradition treaty. Bermuda is a member of the Caribbean Financial Action Task Force (CFATF), and through the UK, is also a party to the 1988 UN Drug Convention. Bermuda is also a member of the Offshore Group of Banking Supervisors.

Continued supervision and enforcement of regulations in the financial sector are necessary to discourage infiltration by organized crime and money launderers. Bermuda should also consider devoting additional resources toward investigative efforts to combat money laundering to more thoroughly deter international criminals.

**Bolivia.** Most money laundering in Bolivia is related to contraband smuggling rather than to narcotics-trafficking. Bolivia's long tradition of banking secrecy facilitates the laundering of illegally obtained earnings, evasion of taxes, and the profits of organized crime, and drug trafficking.

The Government of Bolivia (GOB) has criminalized money laundering related to narcotics-trafficking, organized criminal activities, and public corruption. Law 1768 also created a financial investigations unit, the Unidad de Investigaciones Financieras (UIF), within the Office of the Superintendent of Banks and Financial Institutions to be responsible for implementing anti-money laundering controls. Banks, insurance companies, and securities brokers are required to identify their customers, retain records of transactions for a minimum of 10 years; and report transactions considered unusual (without apparent economic justification or licit purpose) or suspicious (customer refuses to provide information or the explanation and/or documents presented are clearly inconsistent or incorrect) to the UIF.

The Superintendency of Banks UIF is in full operation against money laundering, but it lacks sufficient links to the Public Ministry, the office responsible for prosecuting money laundering. The Public Ministry does not have a specialized unit to prosecute money laundering cases. The UIF is also hampered by weak political support within the GOB and confusion over its legal role.

In 2001, the FIU investigated 16 potential money laundering cases, but the Public Ministry has prosecuted none. During 2001, the UIF was instrumental in uncovering what may be significant money laundering activities by a major Brazilian drug trafficking organization (da Costa). According to the UIF, the organization may have deposited over \$250 million throughout several banks in Bolivia for further transfer to Lebanon. The UIF's findings prompted an investigation by the Brazilian Federal Police, and the Central Bank of Lebanon has frozen accounts. The UIF is a member of the Egmont Group and has established mechanisms for sharing information with Bolivia's Public Ministry and the Special Counternarcotics Force.

In June 2001, the GOB implemented a new criminal code that is intended to expedite criminal cases and help in the prosecution of money laundering cases. However, the current money laundering law is flawed, and the United States Government (USG) is assisting the GOB in drafting stronger legislation.

The recently implemented Code of Criminal Procedures (CCP) has attempted to remedy Constitutional challenges to the asset seizure and forfeiture sections of Law 1008 and subsequent decrees. The CCP now permits the GOB to sell certain kinds of property, with or without the consent of the accused, if the property might lose value or cost too much to maintain. However, challenges continue to the sale of property seized in drug arrests.

Bolivia is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. Bolivia is a member of the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Experts Group to Control Money Laundering, and is a member of the South America Financial Action Task Force (GAFISUD). The GOB and the United States in 1995 signed an extradition treaty, which entered into force in 1996.

The USG resumed support of the Directorate of Seized assets in 2001, after having suspended support in 1998 due to negligent accountability for property seized and the GOB's inability to resolve the problem of judges who routinely returned seized property to narcotics defendants before trial.

**Bosnia and Herzegovina.** Bosnia and Herzegovina has not criminalized money laundering, although it is an offense in the civil code. The government intends to adopt and implement new statutes and procedures that would criminalize money laundering in 2002. Laundering the proceeds of criminal activity through financial institutions is widespread. However, narcotics proceeds tend to be diverted outside Bosnia. Neither U.S. currency nor proceeds of drug sales in the U.S. are significantly involved.

Regulatory supervision of the banking sector is largely vested at the local rather than the federal level through two separate but roughly parallel banking agencies. In 2001, the international community established a working group that plans to centralize banking supervision within the Central Bank in 2002. Although legislation generally reflects the Basel Committee's core principles, including suspicious transaction reporting and due diligence requirements, in practice banking standards do not conform to international norms. Asset seizure and forfeiture statutes exist, but reportedly neither prosecutors nor judges implement them. Some safe harbor protection has now been afforded to banking officials for actions taken in the course of their professional duties. However, Bosnia's laws remain an unwieldy combination of communist-era statutes and internationally imposed reforms. Enforcement is tenuous at best in this cash-based, largely unregulated economy, thereby creating widespread potential for financial crime.

In addition, ambiguous lines of responsibility among investigative and regulatory agencies have aggravated already rampant political interference in investigations and direct intimidation of officials.

Bosnia is a party to the 1988 UN Drug Convention and a signatory to the UN Convention against Transnational Organized Crime.

**Botswana.** Botswana is a developing regional financial center and therefore is vulnerable to money laundering. Botswana has a well-developed banking sector.

The Government of Botswana has enacted legislation against drug production and trafficking, as well as narcotics-related money laundering. Narcotics-related money laundering is a felony punishable by a fine of approximately U.S. \$41,000 or three years in prison, or both. The Bank of Botswana requires financial institutions to report any transaction where Pula 100,000 (U.S. \$15,800) or more is transferred, whether domestically or internationally. The Bank of Botswana has the discretion to provide information on large currency transactions to law enforcement agencies.

On August 19, 1994, the Corruption and Economic Crime Act was passed. Later that year the Directorate on Corruption and Economic Crime was established. The Corruption and Economic Crime Act states procedures for handling corruption and related economic crimes.

In September 2001, the Government of Botswana also passed the Proceeds of Serious Crimes (Amendment) Act. This legislation criminalized money laundering. The act also makes stipulations for identification of financial bodies and owners of corporations and accounts.

Because of concerns that Botswana's status as an offshore financial center could increase its vulnerability to money laundering, the Government of Botswana drafted regulations which would require banks to file suspicious activity reports with the Bank of Botswana. The Bank of Botswana intends to implement these regulations in January 2002, and at the same time distribute guidance to banks on how to identify suspicious transactions.

In September 2001, the newest International Law Enforcement Academy (ILEA) opened in Gaborone. The ILEA will provide training in money laundering and other law enforcement areas to countries in the southern region of Africa.

Botswana is a party to the 1988 UN Drug Convention. Botswana has ratified the International Convention for the Suppression of the Financing of Terrorism adopted by the UN General Assembly in 1999. The Government of Botswana has also taken steps to block the assets of terrorist financing through blocking assets in accounts that are held by persons and organizations that appear in Executive Order 13224.

Botswana should join the Eastern and Southern African Anti-Money Laundering Group, and pass anti-money laundering legislation that covers all serious crimes.

**Brazil.** Despite the important regulatory and investigative steps the GOB has taken, the laundering of proceeds from drug trafficking white-collar crime, corruption and other crimes remains a problem in Brazil. A highly developed financial sector and an increasing problem with local drug consumption and trafficking have made Brazil a money laundering center.

In December 2000, a Brazilian Congressional Investigative Committee (CPI) probing narcotics-trafficking released a 1,200-page report that alleged the existence of a vast network of drug-related organized crime and corruption, including money laundering. The report implicated over 800 people, including two federal congressmen, former state governors and other officials, and estimated that criminals launder approximately \$50 billion in Brazil annually. In 2001, the GOB continued to investigate and prosecute large money laundering operations.

The GOB has a comprehensive anti-money laundering regulatory regime in place. Law 9,613 of March 3, 1998 criminalized money laundering related to drug trafficking and other offenses, and penalizes offenders with a maximum of 16 years in prison. The Law expanded the GOB's asset seizure and forfeiture provisions and exempts "good faith" compliance from criminal or civil prosecution. Regulations issued in 1998 require that individuals transporting more than 10,000 reais (then approximately U.S. \$10,000, now approximately U.S. \$4,000) in cash, checks or traveler's checks across the Brazilian border must fill out a customs declaration that is sent to the central bank. Financial institutions remitting more than 10,000 reais also must make a declaration to the central bank.

The 1998 Law also created a financial intelligence unit, the Council for the Control of Financial Activities (COAF), which is housed within the Ministry of Finance. The COAF includes representatives from regulatory and law enforcement agencies-including the central bank and Federal Police. The COAF has a staff of 16 people-8 intelligence analysts, 3 international analysts, 1 legal specialist, 2 technical specialists, and 2 administrators. The COAF regulates those financial sectors not already under the jurisdiction of another supervising entity. In 1999, the COAF issued eight regulations that addressed 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 regulations require customer identification, record keeping, and reporting of suspicious transactions directly to the COAF.

In 2000 the COAF issued Regulation No. 9, slightly amending the bingo, lotteries, and gaming regulations. In November 2001 the COAF issued Regulation No. 10, which imposes additional requirements for money remittance businesses.

In 1999, the GOB's other regulatory bodies, the central bank, the Securities Commission (CVM), the Examiner of Private Insurance Companies (SUSEP), and the Office of Supplemental Pension Plans (PC), issued parallel regulations to covered institutions that spell out requirements for customer identification and reporting of suspicious transactions. All of these regulations include a list of guidelines that help institutions identify suspicious transactions.

The central bank also established the Departamento de Combate a Ilícitos Cambiais e Financeiros (DECIF) to implement anti-money laundering policy, receive suspicious activity reports from financial institutions, and forward information on the suspect and nature of the transaction to the COAF. Until January 2001, bank secrecy protected the name of the bank and the account number, and transaction details. All government agencies-except for congressional investigative committees-required a court order to access detailed bank account information. The GOB addressed this problem by enacting Complementary Law No. 105 and its implementing Decree No. 3,724 in January 2001. These allow for complete bank transaction information to be provided to regulatory authorities, including the COAF, without a court order.

The COAF indicated that in 2001 (through Nov. 1) it has received approximately 4,300 suspicious activity reports (SARs), including approximately 2,700 from the banking sector, 870 from bingos and 500 from

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real estate companies. COAF's analysis and investigation of approximately 200 of these reports led to 33 prosecutions. The COAF forwarded an additional 47 directly to the police for additional investigation. The federal police had initiated a total of 140 formal investigations as of November 2001. In addition, the GOB began two administrative proceedings against entities that failed to file SARs in 2001.

In October 2001, the Brazilian Congress approved a measure that would increase penalties for corruption and money laundering. The measure awaits action in the Brazilian Senate.

During 2001 the GOB continued to struggle against corruption. The investigation into Judge Nicolau dos Santos Neto, who was arrested in December 2000 for embezzling 169 million reais (then approximately \$85 million) in funds earmarked for construction of a city courthouse, proceeded. Nicolau allegedly used a system of front companies in offshore havens to transfer money and buy property abroad, including the United States. Judge Nicolau still awaits trial on charges of embezzlement, corruption, tax evasion, and money laundering.

A December 2001 Brazilian Senate report accused 17 top soccer officials of corruption, fraud, embezzlement, mismanagement of funds, tax evasion, and money laundering. Among other allegations, soccer officials are accused of having bought and sold rights to players in exchange for large payoffs.

Money laundering also occurs around the region of Foz de Iguaçu, near the tri-border area with Paraguay and Argentina, an area believed to be a haven for smuggling and arms trafficking. Launderers used exchange houses, "laranjas," (individuals who allow their names to be used for a fee), and special non-resident "CC-5" accounts to transfer the money abroad. Brazilian authorities continue to watch the area for possible connections to Middle Eastern terrorist organizations.

The COAF is a member of the Egmont Group. In June 2000, Brazil became a full member of the Financial Action Task Force (FATF). In its 2001 annual report, the FATF indicated Brazil to be fully compliant with the 28 FATF recommendations requiring specific action. In 2000 Brazil also became a founding member of the South American Financial Action Task Force (GAFISUD). Brazil is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In February 2001, the Mutual Legal Assistance Treaty between Brazil and the United States entered into force. Brazil is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The GOB has bilateral information exchange agreements with Belgium, France, Portugal, Paraguay, and Spain.

Reportedly, Brazil and the Bahamas have reached an anti-money laundering agreement regarding offshore bank accounts of Brazilian citizens suspected of money laundering or tax evasion. The agreement, which still needs to be passed on by Brazil's Congress, would allow the freezing of accounts for a limited period until further documentation is provided to authorities in the Bahamas. Reportedly similar initiatives with other offshore jurisdictions the Cayman Islands, Jersey, British Virgin Islands, Andorra, and Liechtenstein are under consideration.

The GOB needs to ensure proper funding and staffing for its law enforcement and regulatory bodies to fully enforce its laws and to cooperate even more effectively internationally in the global effort to combat money laundering and other financial crimes.

**British Virgin Islands.** The British Virgin Islands (BVI) is a Caribbean Overseas Territory of the United Kingdom (UK). The BVI is vulnerable to money laundering due to its financial services industry. Tourism and financial services account for approximately 50 percent of the economy. The offshore sector offers incorporation and management of offshore companies, and provision of offshore financial and corporate services. The BVI has 13 banks (four of which are commercial), and approximately 1800 mutual funds, 140 captive insurance companies, 900 registered vessels, 90 licensed trust companies, and approximately 360,000 international business companies (IBCs). Approximately 40 percent of the IBCs originate in Hong Kong.

On December 7, 2001, legislation was passed which establishes an independent Financial Services Commission for BVI. The Law transfers responsibility for regulatory oversight of the financial services

sector from a government body, the Financial Services Department, to a new autonomous regulatory body, the Financial Services Commission.

According to the International Business Companies Act of 1984, BVI-registered IBCs cannot engage in business with BVI residents, provide registered offices or agent facilities for BVI-incorporated companies, or own an interest in real property located in BVI, except for office leases. BVI has approximately 90 registered agents that are licensed by the Financial Services Unit (FSU), and are required to complete certification programs. Registered agents must verify the identities of their clients. The process for registering banks, trust companies, and insurers is governed by legislation that requires more detailed documentation such as a business plan and approval of the appropriate supervisor within the Financial Services Inspectorate.

The BVI criminalized narcotics-related money laundering in 1987. The Proceeds of Criminal Conduct Act, 1997 expanded predicate offenses for money laundering to all criminal conduct, and created a financial intelligence unit, the Reporting Authority–Financial Services Inspectorate (referred to as the Reporting Authority). The Reporting Authority–Financial Services Inspectorate is responsible for investigating fraud and money laundering cases, and has extensive powers to obtain information. Most of its investigations have involved IBCs and other offshore entities. The 1997 Act also allows the BVI Court to grant confiscation orders against those convicted of an offense and who have benefited from criminal conduct.

On 29 December 2000 the Anti-Money Laundering Code of Practice (AMLCP), 1999 entered into force. The Code established procedures to identify and report suspicious transactions. The AMLCP requires covered entities to create a clearly defined reporting chain for employees to follow when reporting suspicious transactions, and to appoint a reporting officer to receive these reports. The reporting officer must conduct an initial inquiry into the suspicious transaction and report it to the authorities if sufficient suspicion remains. Failure to report could result in criminal liability. The Reporting Authority reviews approximately 30 suspicious transaction reports (STRs) annually. In 1999, the FIU conducted 278 company inquiries, and in 2000, conducted approximately 1200. None of these queries has resulted in prosecutions. To date, the BVI has prosecuted one money laundering case.

The Joint Anti-Money Laundering Coordinating Committee (JAMLCC) was established in 1999 to coordinate all the BVI's anti-money laundering initiatives. It is a broad-based, multi-disciplinary body comprised of private and public sector representatives. The JAMLCC has drafted Guidance Notes based on those of the UK and Guernsey.

In 2000, BVI passed the Criminal Justice (International Cooperation) (Amendment) Act, 2000, criminalizing the act of acquiring, using, or possessing drug proceeds, and “tipping off” individuals under investigation. The BVI also has proposed the Code of Conduct (Service Providers) Act (CCSPA) and the Information Assistance (Financial Services) Act (IAFSA). The CCSPA would encourage professionalism, enhance measures to deter criminal activity, promote ethical conduct, and encourage greater self-regulation in the financial sector. The CCSPA also would establish the Council of Service Providers, a body that would regulate the conduct of individuals within the financial services industry. The Council also would formulate policy, procedures, and other measures to regulate the industry, advise the government on legislation and policy matters, and monitor compliance within the industry. The IAFSA would increase the scope of cooperation between BVI's regulators and regulators from other countries.

The BVI is a member of Caribbean Financial Action Task Force (CFATF), and through the UK is subject to the 1988 UN Drug Convention. Application of the U.S./UK Mutual Legal Assistance Treaty concerning the Cayman Islands was extended to the BVI in 1990. The Reporting Authority–Financial Services Inspectorate is a member of the Egmont Group.

The BVI should eliminate any legal and regulatory impediments to international cooperation and exchange of information.

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**Brunei.** The Government of Brunei has drafted anti-money laundering legislation. In 2001, Brunei implemented an asset seizure and forfeiture law. Brunei's Narcotics Control Board has taken part in courses offered by ILEA in Bangkok, and has also attended a money laundering seminar hosted by DEA in Singapore.

In 2001, Brunei actuated its plans to become an offshore financial center. The Sultanate of Brunei brought into effect a series of laws that established the International Financial Center: the International Business Companies Order 2000; the International Banking Order 2000; the Registered Agents and Trustees Licensing Order 2000; the International Trusts Order 2000; and the International Limited Partnerships Order.

Supervisory authority will be vested in a separate unit of the Ministry of Finance-referred to simply as the "Authority." Reports indicate that this entity, however, will combine both regulatory and marketing responsibilities.

Brunei is a party to the 1988 UN Drug Convention and an observer jurisdiction to the Asia/Pacific Group on Money Laundering.

Brunei should consider separating the marketing and regulatory functions of the Authority to avoid potential conflict of interest cases.

**Bulgaria.** Bulgaria's financial system is vulnerable to money laundering related to narcotics-trafficking and financial crimes such as bank and corporate fraud, embezzlement, tax evasion, and tax fraud. The proceeds of smuggling, vehicle theft, alien smuggling, prostitution, and extortion also are laundered in Bulgaria. The sources and destinations for much of the illicit funds include Eastern Europe, the former Soviet Union, Turkey, and the Middle East. The presence of organized criminal groups and official corruption contribute to Bulgaria's money laundering problem. Combating corruption and organized crime have been policy priorities for the government.

Bulgarian anticrime legislation includes a 1998 money laundering law criminalizing money laundering related to all serious crimes. Other provisions include customer identification and record keeping requirements, suspicious transactions reporting, and internal rules for financial institutions on implementation of an anti-money laundering program. Banks, securities brokers, auditors, accountants, insurance companies, investment companies, and other businesses are subject to these reporting requirements.

The Ministry of Finance's Bureau of Financial Intelligence (BFI) is Bulgaria's financial intelligence unit. Since its establishment in 1998, the BFI has received over 800 suspicious transaction reports, 81 percent of which were submitted by the banking system indicating its active cooperation in the fight against money laundering. The BFI has forwarded 111 cases to the Prosecutor's Office and the Ministry of Interior. During 2001 \$90 million in assets were frozen.

The Government of Bulgaria (GOB) is considering legislation addressing actual forfeiture and seizure of criminal assets, indictment of legal persons on money laundering charges, and prohibiting the use of funds of dubious or criminal origin in acquiring banks and businesses during privatization.

Bulgaria is a member of the Council of Europe (COE) and participates in the COE's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). The BFI is a member of the Egmont Group, participates actively in information sharing with foreign counterparts, and was acknowledged by the 2000 mutual evaluation conducted by the PC-R-EV to be the driving force against money laundering in Bulgaria.

Bulgaria 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. Bulgaria has signed and ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Currently, the BFI has bilateral memoranda of understanding regarding information exchange relating to money laundering with Belgium, the Czech Republic, Latvia, the Russian Federation, and Slovenia.

In June 2001, Bulgaria was judged by the Technical Consult Group of the European Commission to be in full compliance with Chapter 4 of the pre-accession negotiations with respect to preventive legislation in the area of counteraction of money laundering.

The GOB should approve and implement proposed measures that will address forfeiture and seizure of criminal assets, the indictment of legal persons on money laundering charges, and prohibit the use of dubious or criminal-origin funds to acquire banks and businesses during privatization.

**Burma.** Burma, a developing, agrarian country ruled by a military regime, has a population of approximately 41 million people. Renamed the Union of Myanmar by the ruling junta, Burma has a mixed economy with private activity dominant in agriculture, light industry, and transport, and with substantial state-controlled activity, mainly in energy, heavy industry, and the rice trade. Burma's economy continues to be vulnerable to drug money laundering due to its under-regulated financial system, weak anti-money laundering regime, and policies that facilitate the funneling of drug money into commercial enterprises and infrastructure investment. While Burma's current law contains some legal tools for addressing money laundering such as the seizure of drug-related assets and prosecution of drug conspiracy cases, the GOB has been slow to implement provisions of this law and has targeted few, if any, traffickers or their assets. There have been no reported prosecutions for drug money laundering.

In June 2001, the Financial Action Task Force (FATF) identified Burma as non-cooperative in international efforts to fight money laundering. The FATF in its report cited that Burma lacks a basic set of anti-money laundering provisions, specifically in the Central Bank Regulations for financial institutions. The report noted serious deficiencies concerning the absence of a legal requirement to maintain records and to report suspicious or unusual transactions. In addition, Burma's current system contains significant obstacles to international cooperation by judicial authorities. Further, the GOB has allocated inadequate resources for the prevention, detection, and repression of money laundering activities.

The GOB's current anti-money laundering legislation is limited at best. The Narcotics and Psychotropic Substances Law of 1993 criminalizes money laundering in connection with narcotics crimes only. The 1986 Law for the Cognizance of Possession criminalizes the purchase, sale or transfer of any property that has been acquired by illegitimate means. The central bank's regulations for financial institutions contain no anti-money laundering provisions or legal requirements to maintain records or report suspicious or unusual transactions.

Officials report that action is pending on a proposed Money Laundering Law that seeks to criminalize money laundering for a wide range of predicate offenses, including human trafficking and organized crime, provide for some international cooperation, impose record-keeping requirements and establish an agency to receive, analyze and act on suspicious or unusual transactions. This new anti-money laundering legislation would require banks to report extraordinary or suspicious transactions and high denomination transactions. Financial institutions would be required to maintain records for five years and to allow investigators full access to all financial records. Money laundering would be punishable by seven years in prison, bankers who fail to report suspicious transactions would face up to three years. This legislation would be enforced by the Central Control Board, chaired by the Home Minister and would include the Attorney General, Finance Minister, and the Governor of the central bank. This board would set policy, manage cooperation with other international money laundering groups, and organize investigation teams. The legislation proposes that this board decide whether money laundering prosecution is warranted based on the evidence collected by financial investigative teams. The legislation is expected to be enacted in 2002.

Burma is an observer jurisdiction to the Asia/Pacific Group on Money Laundering and a party to the 1988 UN Drug Convention. The GOB has bilateral drug control agreements with India, Bangladesh, Vietnam, Russia, Laos, and the Philippines. It is not known whether these agreements cover cooperation on money laundering issues. Currently, Burma does not provide significant mutual legal assistance or cooperation to overseas jurisdictions in the investigation and prosecution of serious crimes. The GOB is



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planning to couple the proposed anti-money laundering legislation with proposed mutual assistance legislation to facilitate judicial cooperation between Burma and other states.

Burma must increase the regulation and oversight of its banking system, and end policies that facilitate the investment of drug money into the legitimate economy. Burma also should pass and implement its proposed anti-money laundering legislation. Burma should add additional resources to improve the ability of the administrative and judicial authorities that supervise the financial sector and enforce the financial regulations to successfully fight money laundering. Lastly, the GOB should provide additional resources and training for combating money laundering to the police, banking officials and regulators.

**Cambodia.** Cambodia is vulnerable to money laundering because it is a transit country for heroin trafficking from the Golden Triangle. Crime, corruption, and money laundering reportedly are on the increase in Cambodia.

Cambodia in 1996 criminalized money laundering related to narcotics-trafficking through the Law on Drug Control. The law includes provisions for customer identification, suspicious transaction reporting, and the creation of the Anti-Money Laundering Commission (AMLC) under the Prime Minister's Office. The composition and functions of the AMLC were to be promulgated through a separate decree. The provisions of this law have yet to be fully implemented and enforced. The Government is in the process of drafting additional amendments to their anti-money laundering legislation, which will expand predicate offenses beyond drug money laundering.

In December 1999, Cambodia passed legislation, "The Law on Banking and Financial Institutions," that imposes capital and prudential requirements on financial institutions. Capital requirements for commercial banks increased from U.S. \$5 million to U.S. \$13.5 million. Commercial banks also must maintain 20 percent of their capital on deposit with the National Bank of Cambodia (NBC) as reserves. The law requires the NBC to review all banking licenses within one year.

Money laundering offenses are investigated by the same entities that have jurisdiction over the underlying predicate crimes. However, these entities are not trained to detect, investigate, and prosecute money laundering cases.

Cambodia has not yet established a financial intelligence unit but is developing a system for reporting suspicious transactions.

Cambodia has assisted neighboring countries with money laundering investigations. Cambodia is not a party to the 1988 UN Drug Convention. On November 11, 2001 Cambodia signed the UN Convention against Transnational Organized Crime.

The Government of Cambodia should fully implement and enforce its anti-money laundering legislation. Moreover, the Government should institute training so to educate officials and financial institutions about anti-money laundering methods.

**Cameroon.** Cameroon is not a regional financial center. Funds generated from the transit of illicit drugs through Cameroon, and the absence of any anti-money laundering legislation, make Cameroon vulnerable to money laundering. The Bank of Central African States (BEAC) supervises Cameroon's banking system. The Bank of Central African States is a regional central bank that serves six countries of Central Africa.

Cameroon is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Canada.** Canada remains vulnerable to money laundering because of its advanced financial services sector and heavy cross-border flow of currency and monetary instruments. The U.S. Government, sharing its northern border with Canada, is particularly concerned about the cross-border movements of currency. Canada's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States.

In 2000, the Government of Canada (GOC) passed the Proceeds of Crime (Money Laundering) Act, which adopted enhancements recommended by the Financial Action Task Force in 1999, to assist in the detection and deterrence of money laundering and facilitate the investigation and prosecution of money laundering offenses. The Act created a mandatory reporting system for suspicious financial transactions and cross-border movements of currency or monetary instruments. The Act also provided for the creation of a financial intelligence unit (FIU), the Financial Transaction and Reports Analysis Center (FinTRAC), which reports to the Department of Finance and will receive and analyze reports from financial institutions and other financial intermediaries.

In November 2001, FinTRAC became operational and regulations came into effect that require reporting agencies to report all suspicious transactions when there are reasonable grounds to suspect that the transaction is related to the commission of a money laundering offense. In addition to banks and other financial institutions, money service businesses, casinos, lawyers, accountants, and real estate agents handling third-party transactions are required to file suspicious activity reports (SARs). FinTRAC will collect and analyze the SARs and determine which suspicious transactions merit further investigation. A second set of regulations related to compliance regimes, large-cash transactions, record keeping and client identification are expected to be phased in starting in early 2002.

FinTRAC is expected to have the authority to negotiate and set guidelines for sharing information with foreign counterparts. Currently before the parliament is legislation that amends the Canadian rules on information exchange. Under proposed Anti-Terrorism legislation, the Proceeds of Crime (Money Laundering) Act would be amended in order to authorize FinTRAC to detect financial transactions that may constitute threats to the security of Canada and to disclose this information to the Canadian Security Intelligence Service.

Canada is a member of the FATF and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Canada also participates with the Caribbean Financial Action Task Force (CFATF) as a Cooperating and Supporting Nation, and as an observer jurisdiction to the Asia/Pacific Group on Money Laundering (APG). Canada is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters. Canada has long-standing agreements with the U.S. on law enforcement cooperation including treaties on extradition and mutual legal assistance. Canada is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime.

The GOC should fully implement regulations that define cross-border currency reporting requirements. FinTRAC should join the Egmont Group to allow for the exchange of information with foreign counterparts.

**Cayman Islands.** The Cayman Islands, a United Kingdom (UK) Caribbean Overseas Territory, has made significant strides in its counter-money laundering program, though it is still vulnerable to money laundering due to its significant offshore sector. With a population of 40,000, the Cayman Islands is home to a well-developed offshore financial center that provides a wide range of services such as private banking, brokerage services, mutual funds, various types of trusts, as well as company formation and company management. Cayman Islands authorities report that approximately 580 banks and trust companies, 3,178 mutual funds, and 517 captive insurance companies are licensed in the Cayman Islands. In addition, approximately 45,000 offshore companies are registered in the Cayman Islands, including many formed by the Enron Corporation.

In June 2000, the Financial Action Task Force (FATF) identified the Cayman Islands as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns, including (1) lack of customer identification and record-keeping requirements; (2) lack of access to customer identity records by supervisory authorities; (3) lack of mandatory reporting of suspicious transactions; and (4) lack of supervision of a large class of management companies.

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In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions warning them to pay special attention to give “enhanced scrutiny for certain transactions or banking relationships” involving the Cayman Islands.

Following the FATF designation and the U.S. Treasury Advisory, the Cayman Islands enacted and implemented comprehensive anti-money laundering laws and regulations to address the major identified deficiencies: (1) Money laundering regulations that entered into force in September 2000 specify record-keeping and customer identification requirements for financial institutions and certain financial services providers; the regulations specifically cover individuals who establish a new business relationship, engage in a one-time transaction over Cayman Islands (CI) \$15,000, or who may be engaging in money laundering; (2) Amendments to the Proceeds of Criminal Conduct Law (PCCL) make failure to report a suspicious transaction a criminal offense that could result in fines or imprisonment; (3) A provision of the Banks and Trust Companies Law (2001 Revisions) grants the Cayman Islands Monetary Authority (CIMA) the power to request “any information” from “any person” when there are “reasonable grounds to believe” that that person is carrying on a banking or trust business in contravention of the licensing provisions of the law and grants CIMA access to audited account information from licensees who are incorporated under the Companies Law (2001 Second Revision); (4) The Monetary Authority Law (2001 Revision) grants CIMA, consistent with its regulatory authority, the power to obtain information “as it may reasonably require” from a person regulated under the regulatory laws of the Cayman Islands, a connected person, or a person reasonably believed to have information relevant to an inquiry by CIMA; the 2001 revisions to the Monetary Authority Law, unlike prior versions of the law, contain no requirement that CIMA obtain a court order before accessing account ownership and identification information; and (5) Amendments to the Companies Management Law (2001 Revision) expand regulatory supervision and licensing to management companies that were previously exempted, while the Companies Law (2001 Second Revision) institutes a custodial system in order to immobilize bearer shares.

A 2001 amendment to the PCCL revises the legal definition of financial intelligence unit to adopt the Egmont Group definition, thereby making the Cayman Islands Financial Reporting Unit eligible to become a member of the Egmont Group and facilitating information exchange with its international counterparts. The Office of the Attorney General has also established an international division to respond to international requests for judicial cooperation.

Since the FATF issued its June 2000 report, the Cayman Islands has also passed and/or amended various other laws, including the Money Services Law (2000), Building Societies Law (2001 Revision), Cooperative Societies Law (2001 Revision), Insurance Law (2001 Revision), and the Mutual Funds Law (2001 Revision).

The FATF recognized in June 2001 that the Cayman Islands had remedied the serious deficiencies in its anti-money laundering regime and decided to remove the Cayman Islands from the FATF’s list of non-cooperative countries. Similarly, the U.S. Treasury Department withdrew its advisory against the Cayman Islands in June 2001.

The Cayman Islands has been cooperative with criminal law enforcement authorities in the U.S. Through the UK, the Cayman Islands is subject to the 1988 UN Drug Convention and a 1986 U.S.-U.K. Mutual Legal Assistance Treaty. Also, it is a member of the Caribbean Financial Action Task Force, the Offshore Group of Banking Supervisors, and most recently was accepted into the Egmont Group of Financial Intelligence Units in June 2001.

The Cayman Islands has made notable progress toward addressing the serious systemic problems that characterized its counter-money laundering regime less than two years ago. It has also made important gains in terms of implementation of its new counter-money laundering regime. The government should continue with its anti-money laundering implementation plans and international cooperation.

**Chile.** Chile has a well-developed financial sector but is not considered a major regional financial center. The financial sector, particularly the banks, commodities brokerages, and currency exchange houses,

remains highly vulnerable to money laundering due to the absence of comprehensive and effective anti-money laundering laws.

Chile's current anti-money laundering program is based on the 1995 Counter Narcotics Law No. 19.366, which criminalized narcotics-related money laundering activities. The law allows banks to voluntarily report suspicious or unusual financial transactions. However, the legislation has no "safe harbor" provisions protecting banks from potential civil or criminal liability, and as a result the reporting of such transactions continues to be extremely low. Chile's Judicial Reform Law of 1997 gives both the Council for the Defense of the State (CDE) and the Office of the Chief Prosecutor (Ministerio Publico) responsibility for investigating narcotics-related money laundering cases.

In December 1999, the Government of Chile (GOC) proposed amendments to the Counter Narcotics Law in order to enhance Chile's ability to prevent and combat money laundering. This proposed new law would add illicit enrichment and terrorism as predicate offenses for money laundering and mandate the reporting of suspicious financial transactions by banks and other financial institutions. Those institutions would include currency exchange houses, credit card companies, chambers of commerce, brokers in securities, investments, bonds, and stocks, mutual funds companies, casinos and horse racetracks, notaries, the Foreign Investments Committee, and the Central Bank.

The proposed law also creates a new financial intelligence unit (FIU) within the Ministry of Finance replacing the existing FIU currently operating with limited legal abilities within the Council for the Defense of the State. The new FIU would receive and analyze reports of suspicious financial activities and forward those deemed appropriate for further investigation to the Public Ministry. In addition, the law would grant sole responsibility for investigating money laundering activities to the Public Ministry.

Chile is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Chile is a member of the Organization of American States Inter American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and the South American Financial Action Task Force (GAFISUD). Chile's current financial intelligence unit, the Departamento de Control de Trafico Ilicito de Estupefacientes, is a member of the Egmont Group. In August 2000, Chile and the United States signed an agreement for cooperation and mutual assistance in narcotics-related matters. Chile has similar agreements with the United Kingdom, Spain, and the Czech Republic. Bilateral agreement negotiations are underway with France, Germany, Russia, Poland, Romania, Ukraine, Turkey, Tunisia, Guatemala, and Honduras.

The Government of Chile should pass the anti-money laundering bill and put in place the legal framework allowing authorities to require disclosure of suspicious transactions. Any new FIU should be granted the authority and resources necessary to make it an effective force against money laundering and to cooperate internationally in the fight against money laundering.

**China, People's Republic of.** As the People's Republic of China (PRC) has become more prosperous, money laundering, bank fraud, embezzlement, and other financial crimes have become more common. Other areas of increased criminal activity include narcotics-trafficking, illegal alien smuggling, and intellectual property violations. Corruption figures prominently into financial crimes such as smuggling, embezzlement of public funds, and tax evasion. The use of alternative remittance systems to move criminal proceeds and to evade foreign currency control measures is on the rise. The PRC's legal, regulatory, and enforcement sectors require additional reforms to counter the growth in financial crimes and money laundering. Law enforcement agencies are ill prepared in training and equipment to prevent, investigate, and prosecute crime.

The PRC has taken modest steps in 2001 to improve its anti-money laundering regime. As a means of cracking down on illegal foreign exchange trading that facilitates money laundering, among other financial crimes, the State Administration for Foreign Exchange (SAFE) and the Ministry of Public Security (MPS) issued a joint circular in early September 2001 for local departments of both agencies to cooperate more closely in scrutinizing foreign exchange transactions.

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The various agencies responsible for developing the PRC's anti-money laundering regime are studying how best to incorporate anti-money laundering measures into the PRC's legal and financial environments. An impediment to the PRC's participation in international money laundering fora, such as the Asia/Pacific Group on Money Laundering (APG), is the question of what to call Taiwan in the APG. The PRC participated in the initial meeting of the APG and hosted the first round of working group meetings in Beijing in July 1997. The PRC has not attended subsequent meetings of the APG citing Taiwan nomenclature issues as an obstacle to the PRC's participation.

While awaiting the adoption of comprehensive money laundering measures, the PRC's primary legal tool to combat money laundering is Article 191 of the 1997 Criminal Code. It lists three offenses—narcotics-trafficking, organized crime, and smuggling—in connection with which money laundering is treated as a criminal offense. Additionally, Article 312 criminalizes complicity in concealing the proceeds of criminal activity. The PRC is currently investigating 70 money laundering cases tied to these predicate offenses.

The April 2000 statute that requires bank clients to use their real names and show identification cards to open bank accounts has been effective in preventing criminal proceeds from being easily deposited into bank accounts opened under pseudonyms and withdrawn freely. In response to the closure of this loophole, Chinese officials have noted a rise in cross-border money laundering, particularly of funds derived from bribery or embezzlement headed to Hong Kong and returning to the PRC disguised as foreign investments. Under provisions of this statute, anonymous accounts will be totally phased out by 2005.

The United States and the PRC continue to hold discussions on cooperation on money laundering and other enforcement topics through the auspices of the US-PRC Joint Liaison Group (JLG) on law enforcement cooperation. The next JLG meeting is scheduled to occur in early 2002 in Washington.

The United States and the PRC signed a Mutual Legal Assistance Agreement (MLAA) in June 2000, the first major bilateral law enforcement agreement between the countries and an interim step towards the conclusion of a Mutual Legal Assistance Treaty. The MLAA entered into force in March 2001. In February 2002 the PRC agreed to the establishment of a legal attache office in Beijing to be staffed by the FBI. The PRC is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

Building upon Article 191 and the ancillary financial regulations adopted in the past few years, China should criminalize money laundering for all serious crimes and implement anti-money laundering measures in line with international standards. As China integrates itself into the global anti-money laundering effort, the adoption of laws and regulations compatible with partner nations will allow it to more effectively combat money laundering domestically as well as internationally.

**Colombia.** Drug money laundering continues to infect Colombian financial institutions and other economic sectors as a result of Colombia's prominence as the world's largest production and distribution source for cocaine and a significant supplier of heroin. Colombia's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States.

However, the Government of Colombia (GOC) has endeavored to become a regional leader in the fight against money laundering, with broad legal authority to combat money laundering and established anti-money laundering programs in several governmental institutions. Despite these efforts and funding support from the United States, the money laundering threat in Colombia remains high due to procedural difficulties in Colombian legal proceedings, limited resources for anti-money laundering programs, and pervasive money laundering of funds related to narcotics-trafficking, commercial smuggling for tax and import duty avoidance, kidnapping for profit, and arms trafficking and terrorism connected to violent paramilitary groups and guerrilla organizations.

A variety of money laundering techniques are present in Colombia. Trade-based money laundering, such as the Black Market Peso Exchange (BMPE), through which money launderers furnish narcotics-

generated dollars in the United States to commercial smugglers, travel agents, investors and others in exchange for Colombian Pesos in Colombia, remains a prominent method for laundering narcotics proceeds. Colombia also appears to be a significant destination and transit location for bulk shipment of narcotics-related U.S. currency. In particular, there is growing concern about the use of local currency exchangers to convert narcotics dollars to Colombian pesos, with the U.S. currency later shipped to Central America for deposit as legitimate exchange house funds where it is converted back to pesos and repatriated by wire to Colombia. Other methods include the use of debit cards drawn upon financial institutions outside of Colombia and the transfer of funds out of and then back into Colombia by wire through different Casas of Cambio in order to give the appearance of a legal business or personal transaction. Colombian authorities have also noted increased body smuggling of U.S. and other foreign currency and an increase in the number of shell companies operating in Colombia. Smart cards, Internet banking, and the dollarization of the economy of neighboring Ecuador represent some of the growing challenges to money laundering enforcement in Colombia.

Colombia established the “legalization and concealment” of criminal assets as a separate criminal offense in 1995, and more generally criminalized the laundering of the proceeds of extortion, illicit enrichment, rebellion, and drug trafficking in 1997. Colombia’s new criminal code enacted in 2000 became effective in July of 2001. Among other things, this new code expanded the money laundering predicates to also include arms trafficking, crimes against the financial system or public administration and criminal conspiracy.

A general provision for criminal forfeiture for intentional crimes has existed in Colombian penal law since the 1930s. Since then, Colombia has adopted additional criminal forfeiture provisions for particular offenses, most notably those contained in Colombia’s principal counternarcotics statute, Law 30 of 1986. In 1996, Colombia added an in rem forfeiture statute, giving Colombia one of the most expansive legislative regimes for forfeiture in Latin America. Nevertheless, despite this broad criminal and in rem legislative framework, until recently, forfeiture appears to have been used sparingly and with limited success.

In 1993, Colombia established suspicious activity and currency transaction reporting for banking institutions, and barred the entities and their employees with such reporting obligations from informing their clients of their reports to Colombian law enforcement. In addition to financial institutions, wire remitters now are required to file suspicious transaction reports, while currency transactions and cross-border movements of currency in excess of U.S. \$10,000 must also be reported. Casas de cambio must file currency reports for transactions involving U.S. \$700 or more. More recently, Colombia has sought to extend anti-money laundering compliance procedures to such institutions as the Superintendency of Securities, which oversees Colombia’s stock exchanges.

In addition, the Superintendency of Banks has instituted “know your customer” regulations for the entities it regulates, including banks, insurance companies, trust companies, insurance agents and brokers, and leasing companies. Among other things, the Superintendency of Banks also has authority to rescind licenses for wire remitters. However, the Colombian Central Bank’s new External Resolution No. 8 issued in May 2000 relaxed certain requirements on individuals conducting currency exchange services, enabling them to simply identify this service when registering their business but eliminating the need for them to become fully licensed.

Despite Colombia’s comprehensive anti-money laundering laws and regulations, enforcement continues to be a challenge for Colombia. Limited resources for prosecutors and investigators have made financial investigations problematic. Continued difficulties in establishing the predicate offense further contribute to Colombia’s limited success in achieving money laundering convictions and successful forfeitures of criminal property. Congestion in the court system and procedural impediments similarly have contributed to limited results in forfeiture.

In 1996, the Prosecutor General’s office established a specialized task force unit of agents and prosecutors to investigate and prosecute money laundering cases and forfeiture actions under the 1996 Extinction of

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Domain statute. Including convictions under prior offenses of criminal reception and illicit enrichment, this unit has obtained criminal sentences in about 50 money laundering related cases, with approximately 17 occurring in 2001. While Colombian authorities have initiated forfeiture actions against more than 10,000 properties in more than 350 forfeiture actions, Colombia obtained in rem forfeiture judgments in only six cases in 2001, bringing the total judgments to eighteen since 1998, some of which remain on appeal.

Until recently, Colombia also did not have a financial intelligence unit capable of receiving suspicious transaction reports. Originally created by executive decree in 1998, Colombia formally adopted legislation in 1999 to establish a unified central Financial Information and Analysis Unit (UIAF) within the Ministry of Finance and Public Credit with broad authority to access and analyze financial information from public and private entities in Colombia. The UIAF is now widely viewed as a hemispheric leader in efforts to combat money laundering and supplies considerable expertise in organizational design and operations to other financial intelligence units in Central and South America. In 2001, the UIAF received an average of more than 1000 suspicious activity reports (SARs) per month, a significant increase from last year's figures. Since December of 1998, the UIAF has forwarded more than 1100 SARs to the Prosecutor General's office for further investigation or prosecution. Electronic submission of suspicious transaction reports scheduled to go into effect last spring was expected to improve suspicious transaction reporting. The UIAF became a member of the Egmont Group of Financial intelligence units in 2000.

As in 2000, Colombia played a significant role in multilateral efforts to combat money laundering in 2001. In 2001, Colombia held the presidency of the South American Financial Action Task Force (GAFISUD), a newly established regional anti-money laundering organization modeled after the G-8 Financial Action Task Force. Colombia has also agreed to undergo mutual evaluation by fellow GAFISUD members. Colombia has also continued to participate in a multilateral initiative with the Governments of the United States, Venezuela, Panama, and Aruba designed to address the problem of trade-based money laundering through the BMPE among the participating countries.

The United States and Colombia have continued to expand bilateral and multilateral cooperation in money laundering and forfeiture investigations. Twenty-six fugitives were returned from Colombia to the United States in 2001, twelve on money laundering charges. The majority of those returned were Colombian nationals. At least two other Colombian nationals and an Italian citizen are currently pending extradition to the United States on money laundering charges following a 2001 Colombian Supreme Court resolution in favor of their extradition. In early 2001, close cooperation between the United States Drug Enforcement Administration (DEA), the Colombian Administrative Department of Security (DAS) and Panamanian authorities resulted in 24 arrests and important seizures of assets connected to an international money laundering operation. In addition, coordinated efforts in 2001 between a DAS-DEA special unit and the United States Customs Service resulted in 28 arrests in the U.S. and Colombia in January of 2002 and the seizure of more than \$7 million in assets over the course of a critical undercover money laundering investigation involving the inner workings of the BMPE. Colombia has also provided important continuing assistance to United States civil forfeiture actions against accounts in Colombia restrained in 1998 and 1999 in response to United States formal requests for assistance in Operations Juno and Casablanca. Colombia's Tax and Customs Directorate (DIAN) has also provided valuable case-related assistance and training to United States prosecutors and agents.

Among other things, the United States' July 2000 appropriations in support of Plan Colombia have enabled the United States to provide training to the prosecutors and agents of the Prosecutor General's specialized money laundering and forfeiture unit in 2001. Expenditures from these funds are expected to provide further training, as well as an infusion of equipment and operational expense support for the unit. United States appropriations in support of Plan Colombia are also expected to provide significant assistance to such programs as the asset management program of the National Drug Directorate (DNE) and anti-money laundering initiatives of the DIAN.

2001 also brought the transition to a new Prosecutor General. Additional personnel changes are anticipated in executive branch agencies following the 2002 presidential elections in Colombia. The new Colombian authorities should continue the progress made in the establishment of anti-money laundering programs and further strengthen the law enforcement relationship between the United States and Colombia.

**Cook Islands.** The Cook Islands is a self-governing group of islands in the South Pacific that maintains a free association with New Zealand. Cook Islanders are citizens of New Zealand and are part of the British Commonwealth. The Cook Islands is vulnerable to money laundering because it has an offshore sector that offers banking, insurance, international trusts, and formation of international companies, (the equivalent of international business companies, IBCs). Marketers of offshore services on the Internet promote the Cook Islands as a favored jurisdiction for establishing asset protection trusts.

In June 2000, the Financial Action Task Force (FATF) identified the Cook Islands as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns. In particular, the Government of the Cook Islands (GOCI) had no relevant information on approximately 1,200 international companies it had registered. The country also licensed seven offshore banks that took deposits from the public, yet were not required to identify customers, nor keep records. Excessive secrecy provisions in place guarded against the disclosure of relevant information on those international companies as well as bank records.

In June 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through the Cook Islands or involving entities organized or domiciled, or persons maintaining accounts, in the Cook Islands.

The GOCI's regulatory scheme is susceptible to money laundering. The International Companies Act of 1981 and amended 1982 permits issuance of bearer shares and the marketing of shelf companies. The Act prohibits public access to registers of corporate directors or managers or the disclosure of beneficial owners. While corporate directors are not required to be residents, companies must maintain a registered office and company secretary in the Cook Islands. Companies must file annual returns, but are not required to have their accounts audited.

The Offshore Industry (Criminal Provisions) Act 1995-96 requires officers and employees of the Cook Islands' six trustee companies to report to the Cook Islands Commissioner for Offshore Financial Services (COFS) suspicious activities related to narcotics-trafficking or transactions where there is actual knowledge that a serious crime has been committed. Trustee companies must provide information to the COFS to substantiate their suspicions. The COFS can petition the High Court to rescind the license of or strike from the corporate register offshore entities found to be involved in such crimes. Moreover, the High Court also may dispose of the assets of the business entity.

The GOCI has enacted several legislative reforms to address the deficiencies identified by the FATF. In August 2000, GOCI passed the Money Laundering Prevention Act 2000 (MLPA), that criminalizes all money laundering, creates a financial intelligence unit (FIU), mandates the reporting of suspicious transactions by financial institutions, and defines records retention and customer identification requirements for financial institutions. The anti-money laundering measures in the financial area cover both the domestic and offshore sector.

The legislation established a Money Laundering Authority (MLA) that is comprised of the financial secretary, the commissioner for offshore financial services, and the commissioner of the police and currently constitutes the country's financial intelligence unit. The GOCI is in the process of making this FIU fully operational. The Government of New Zealand has provided a technical advisor to assist the financial intelligence unit. The MLA receives suspicious transactions reports, sends reports to the solicitor general when money laundering is suspected, instructs financial institutions to cooperate with investigations, compiles statistics and records for use by domestic and foreign regulators and law enforcement, issues guidelines to financial institutions, and creates record keeping and reporting



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requirements for financial institutions. The Money Laundering Authority issued Guidance Notes on Money Laundering Prevention in April 2001.

The MLPA imposes certain reporting obligations on financial institutions such as banks, offshore banking businesses, offshore insurance businesses, casinos, and gambling services. Financial institutions are required to report transactions if there is reasonable cause to suspect that the transaction involves the proceeds of a crime. Financial institutions are required to maintain for a minimum of five years all records that are related to the opening of accounts, and business transactions that exceed NZ \$30,000 (approximately U.S. \$12,900). The records must include sufficient documentary evidence to prove the identity of the customer. Financial institutions are required to develop procedures to audit their compliance with these provisions.

The MLPA also requires that individuals declare cross-border movements of currency or negotiable securities greater than the equivalent of NZ \$10,000 (approximately U.S. \$4,150) to a police, customs, or immigration officer. Failure to declare cross-border movements of currency or negotiable instruments can result in a maximum fine of NZ \$1,000 (approximately U.S. \$415) and a maximum prison sentence of one year.

The MLA is authorized to cooperate with foreign governments that have entered into bilateral or multilateral mutual assistance arrangements with the GOCI. In addition, Section 21 of the MLPA makes provision for ad hoc requests, granting the Minister of Finance the power to approve cooperation with a foreign government without an agreement in place. Money laundering is an extraditable offense.

The Cook Islands is not a party to the 1988 UN Drug Convention. It is a member of the Asia/Pacific Group on Money Laundering and participated in a mutual evaluation conducted by that Group and the Offshore Group of Banking Supervisors in October 2001.

In June 2001, FATF determined that although the Cook Islands had taken steps to remedy deficiencies in its anti-money laundering regime, the Cook Islands will need to take further steps to warrant removing it from FATF's list of non-cooperative countries. The GOCI still needs to finalize and promulgate the necessary regulations in order to bring its legislation into full force.

The GOCI has taken a number of steps toward address the deficiencies identified by the FATF. However, the GOCI should begin to aggressively implement and enforce the provisions of the recently passed MLPA. Moreover, the GOCI needs to eliminate confidentiality provisions relating to the incorporation and registration of companies and other entities and their transactions, and expand oversight of the offshore sector.

**Costa Rica.** Costa Rica is vulnerable to money laundering because of drug trafficking in the region, and despite a December 2001 law expanding the scope of anti-money laundering regulations, a lack of stringent supervisory controls over its offshore sector. Anecdotal information suggests that Costa Rica's financial institutions, currency-exchange businesses, casinos, and real estate market have been used to launder money.

Costa Rica's domestic banking sector includes approximately 20 private and 3 state-owned banks, 13 finance companies, and 25 savings and loan institutions. The General Superintendent of Financial Entities (SUGEF) supervises these entities. Private banks are often small parts of the 21 "financial groups" that also engage in other activities such as bond trading and stock brokerage.

Low taxes and strong secrecy laws have created in recent years a growing offshore sector that offers banking services, and corporate and trust formation. Costa Rica has approximately 10 banks domiciled in jurisdictions outside of Costa Rica—Bahamas, Cayman Islands, Montserrat, and Panama—operating as part of Costa Rican financial groups. These foreign-domiciled "offshore" banks may not engage in direct financial operations in Costa Rica. These banks may receive or transfer funds in foreign currency, generally using correspondent accounts in other countries. Foreign-domiciled banks may only conduct transactions in Costa Rica through a domestic bank under a services contract. According to one estimate, these banks hold assets of approximately U.S. \$1.4 billion.

There are no formal licensing procedures for foreign-domiciled banks. The central bank approves applications for foreign-domiciled banks to operate in Costa Rica after relying on the foreign jurisdiction's certificate of good standing of these institutions. However, regulations allow for incorporation of these entities only from jurisdictions with authority to enter into supervision agreements with Costa Rican authorities and only from what Costa Rican authorities deem adequately regulated jurisdictions.

Costa Rican authorities have supervisory authority over foreign-domiciled banks in Costa Rica and have direct access to their records only through service contracts and through joint on-site inspections in those jurisdictions that permit them. Foreign-domiciled banks are required only to provide monthly balance statements and year-end audited statements to the General Superintendent of the Financial System (SUGEF); they must otherwise adhere to regulations established by their home jurisdictions.

The SUGEF supervises the domestic banking activity of foreign domiciled banks since they may only conduct local business through a domestic bank, and domestic banks are subject to Costa Rican regulations and direct SUGEF supervision.

The Government of Costa Rica (GOCR) has signed a memorandum of understanding (MOU) with Panama that permits joint on-site inspections of their Costa Rican offshore institutions. Costa Rican authorities indicated that on-site inspections have been scheduled with banks from the other jurisdictions despite the lack of an MOU.

Costa Rica has also become a haven for Internet gaming companies, especially sports betting, with over 100 companies estimated to be active employing over 5,000 people.

Law No. 7786 on Narcotics and Psychotropic Substances of May 1998 reformed a previous drug law and criminalized money laundering related to drug trafficking. Under Law 7786, drug money laundering is punishable by 8 to 20 years in prison. Law 8204, approved in December 2001, expanded the scope of Law 7786 and criminalizes the laundering of proceeds from all serious crimes.

Law No. 7786 obligates domestic financial institutions to identify their clients, record and report currency transactions that exceed U.S. \$10,000 to regulators, report suspicious transactions, and maintain records for a minimum of five years. Law 8204 additionally requires deification of beneficial owners of accounts and transacted funds.

Covered financial institutions include those supervised by SUGEF, the General Superintendent of Securities, and the Superintendent of Pensions, money exchangers and remitters, and dealers in traveler's checks and money orders. Other businesses such as dealers in jewelry and consumer goods, casinos, and credit card companies must report cash transactions that exceed U.S. \$10,000 and suspicious transactions to the Joint Counternarcotics Intelligence Center (CICAD). Individuals are required to report cross-border movements of currency that exceed U.S. \$10,000. The law exempts good faith compliance from criminal, civil, or administrative liability.

Law No. 7786 created the Unidad de Analisis Financiero (UAF), Costa Rica's financial intelligence unit and part of the CICAD, to receive and analyze suspicious financial transaction reports and investigate cases of money laundering. Financial institutions are required to report suspicious financial transactions their corresponding supervisory authority, which forwards disclosures to the UAF. In June 1999, the UAF joined the Egmont Group. The UAF assists other Costa Rican agencies' investigations and exchanges information with its foreign counterparts.

Law 8204 expands the UAF authority in several respects. The law requires all covered institutions to respond to all information requests by the UAF. Law 8204 also grants the UAF explicitly authority to share any information it receives with a wide range of judicial and administrative authorities, including foreign FIUs.

Law 8204 also extends anti-money laundering regulations to foreign-domiciled banks. However, it is unclear how Costa Rican authorities could comprehensively supervise these entities since they only have direct access to domestic transaction information through the local bank.

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In 2000 the UAF reported receiving 58,000 large currency transaction reports and investigated 30 subjects. The UAF forwarded these results to the Public Ministry; however, Costa Rica has not successfully prosecuted anyone under its current anti-money laundering laws.

Costa Rica is a member of the Caribbean Financial Action Task Force (CFATF), and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Costa Rica is a party to the 1988 UN Vienna Convention. An extradition treaty is in force between the United States and Costa Rica.

U.S. law enforcement agencies work effectively with Costa Rican public security forces in counternarcotics and money laundering investigations. In 2001, the GOOCR assisted the U.S. Internal Revenue Service (IRS) in arrests and executing search warrants relating to a major tax evasion and money laundering ring in Costa Rica. Six people were charged in Costa Rica of conspiring to launder \$470,000 through offshore trusts designed to conceal assets and evade millions of dollars in U.S. taxes.

The growth of Costa Rica's offshore sector and the absence of an effective regulatory and supervisory regime are causes for concern. The GOOCR should subject all offshore institutions to comprehensive anti-money laundering supervision to help Costa Rica protect its financial and offshore sectors from being abused by money launderers and other international criminals.

**Côte d'Ivoire.** Côte d'Ivoire is an important regional financial center in West Africa. To the extent money laundering occurs, a significant portion relates to the proceeds of trafficking in narcotics, particularly heroin and cocaine. Money laundering is concentrated in the banking system and is controlled by organizations other than local traffickers.

Financial fraud is mostly limited to Nigerian-operated scams aimed at foreigners. Endemic smuggling of contraband does not generate funds sufficiently large enough to require laundering.

Laundering of money related to any criminal activity is a criminal offense. Banks are required to maintain records of large currency transactions and to report this data to the government. Banks are required to maintain the records necessary to reconstruct significant transactions through financial institutions. The government requires financial institutions to report suspicious transactions. Bankers' protection under the law is contingent on their cooperation with law enforcement entities. Money laundering controls are not applied to non-banking institutions. Côte d'Ivoire has never prosecuted a money laundering case.

Côte d'Ivoire has not addressed the problem of international transportation of illegal-source currency and monetary instruments, although there are reporting requirements on transporting cash in excess of 5 million West African Francs (approximately U.S. \$6,850) into or out of the country.

Côte d'Ivoire's asset seizure and forfeiture law applies to both mobile and immobile property, including bank accounts and businesses used as conduits for money laundering. The Ivoirian Government is the designated recipient of any narcotics-related asset seizures and forfeitures. It is not known whether legal loopholes exist to permit traffickers and others to shield assets. The law does not allow for civil forfeiture or for the sharing of assets with other governments.

Côte d'Ivoire is a party to the 1988 UN Drug Convention.

**Croatia.** Croatia is neither a regional financial nor a money laundering center. Much of the money laundering that does occur is related to financial crimes such as tax evasion and business-related fraud. The proceeds of narcotics-trafficking tend to be converted into real estate and luxury goods rather than laundered for re-integration in to the financial system.

In 1997, Croatia criminalized money laundering related to serious crimes. The legislation requires banks and non-bank financial institutions to report transactions that exceed U.S. \$17,500, as well as any cash transactions that seem suspicious. It also authorized establishment of a financial intelligence unit (FIU) within the Ministry of Finance. Croatia's FIU is a member of the Egmont Group. In 2001, the Government of Croatia (GOC) began centralizing anti-money laundering intelligence and investigation within the Ministry of the Interior. In 2000, Croatia's Parliament strengthened the country's penal code to

ensure that all those indicted can be charged with the money laundering offense where applicable. Prior to this change, a person could not be charged with money laundering if the predicate offense carried a maximum penalty of fewer than five years in prison. The GOC plans to introduce legislation in 2001 that will require banks to transmit data to supervising agencies electronically instead of by mail. In 2001, the GOC established a National Center for the Prevention of Corruption and Organized Crime within the State Prosecutor's Office. This office has the authority to freeze assets, including securities and real estate, for up to a year. The office also has enhanced powers to seek financial transaction information and to coordinate the investigation of financial crimes.

Weak interagency cooperation, the insufficient technical skills of the police and prosecutors, and a judicial backlog of over one million cases hinder Croatia's anti-money laundering efforts. Croatia does not have limitations on providing and exchanging information with international law enforcement on money laundering investigations.

Croatia is a party to the 1988 UN Drug Convention and a signatory to the UN Convention against Transnational Organized Crime.

**Cuba.** The Government of Cuba (GOC) controls all financial institutions, and the Cuban peso is not a freely convertible currency. The GOC has not prosecuted any money laundering cases since the National Assembly passed legislation in 1999 that criminalized money laundering related to trafficking in drugs, arms, or persons. The Cuban central bank has issued regulations that encourage banks to identify their customers, investigate unusual transactions, and identify the source of funds for large transactions. Cuba also has cross-border currency reporting requirements. Cuba has solicited anti-money laundering training assistance from the United Kingdom, Canada, France, and Spain.

Cuba is a party to the 1988 UN Drug Convention, and a signatory to the UN Convention against Transnational Organized Crime.

**Cyprus.** The Republic of Cyprus is a major regional financial center with a robust offshore financial services industry, and as such, remains vulnerable to international money laundering activities. Organized crime, credit card fraud, burglary, and theft are the major sources of illicit proceeds laundered in Cyprus.

In 1996, the Government of Cyprus (GOC) passed the Prevention and Suppression of Money Laundering Activities Law. This law criminalized non-drug related money laundering; provided for the confiscation of proceeds from serious crimes; codified actions that banks and non-bank financial institutions must take (including customer identification); and mandated the establishment of a financial intelligence unit (FIU). Previously enacted legislation criminalized drug-related money laundering. A 1998 amendment to the 1996 anti-money laundering legislation extended the list of predicate offenses to include criminal offenses punishable by imprisonment exceeding one year from which proceeds were derived. The amendment also addressed government corruption, and facilitated the exchange of financial information with other FIUs, as well as the sharing of assets with other governments.

A law passed in 1999 criminalized counterfeiting bank instruments such as certificates of deposit and notes. In November 2000, the GOC further amended its 1996 money laundering law by eliminating the separate list of predicate offenses. This amendment, coupled with the central bank's guidance note to commercial banks reminding them of the importance of reporting any suspicious transaction to the FIU, has contributed to a nearly three-fold increase in the number of bank suspicious activity reports from 25 in 2000 to 67 in 2001.

The GOC in January 1997 established its FIU, the Unit for Combating Money Laundering (UCML). The 14-member UCML is comprised of representatives from the Attorney General's Office, Customs, law enforcement, and support staff. The UCML statutory authority directs it to evaluate evidence generated by its member organizations and other sources to determine if an investigation is necessary. The UCML also conducts anti-money laundering training for Cypriot police officers, bankers, accountants, and other financial professionals.

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In 2001, the UCML opened 202 cases and closed 98. The Unit issued 115 Information Disclosure Orders and 21 freezing orders, resulting in approximately U.S. \$2.67 million in frozen assets. During 2001, there were three convictions recorded under the 1996 Anti-Money Laundering law, while twelve cases were pending at the end of the year.

On 22 November 2001, Cyprus Parliament ratified the UN Convention on the Suppression of the Financing of Terrorism. The GOC created a sub-unit within the UCML that will focus specifically on the financing of terrorism. The unit reinforces the UCML with additional staff. The UCML will coordinate with the new counter-terrorism unit under the authority of the Attorney General. The GOC has cooperated with the U.S. to investigate terrorist financing.

The GOC places restrictions on foreign ownership of property and transportation of currency and bullion. Cypriot law requires declaration of all cash entering or leaving Cyprus in the amount of U.S. \$1,600 or greater. Declarations over U.S. \$10,000 are sent directly to the Investigations Section of Cypriot Customs and the central bank. All banks and non-bank financial institutions—insurance companies, stock exchange, cooperative banks, lawyers, accountants and other financial intermediaries—must report suspicious transactions to the UCML. Bank employees currently report all suspicious transactions to the bank's compliance officer, who determines whether to forward the report to the UCML for investigation. Reports not sent to the UCML are filed monthly with the central bank. Banks are also required to document cash deposits in excess of U.S. \$10,000 and to file monthly aggregate reports with the central bank. A declaration form must accompany all foreign currency deposits. In 1998, the central bank instructed banks and financial institutions to pay special attention to complex, unusually large transactions, and to report cumulative electronic funds transfers that exceed U.S. \$500,000 per month for a single customer. There are no statistics available on compliance with these regulations.

In 2000, the Financial Action Task Force (FATF) conducted a review of Cyprus's anti-money laundering regime against 25 specified criteria. The report raised a concern regarding customer identification in respect to all forms of trusts. In 2001, the central bank issued rules addressing this concern, requiring banks to ascertain the identities of the natural persons who are the "principal/ultimate" beneficial owners of new corporate or trust accounts. This rule does not apply to existing accounts.

The central bank took several steps during 2001 to improve suspicious activity reporting and identification of beneficial owners of new accounts. The central bank amended its requirement that commercial banks report the opening and maintenance of accounts, by banks incorporated in 19 jurisdictions, to include the Former Yugoslav Republic of Montenegro. The amendment enhanced the requirement to obtain central bank approval for cash deposits exceeding \$100,000 per year by requiring banks to apply the annual limit to the aggregate value of deposits from family members and business associates.

The central bank also issued a series of orders requiring banks to notify the central bank of accounts held by any individuals or organizations associated with the financing of terrorist organizations, and to freeze assets held in those accounts. The aforementioned requirements, apply equally to domestic and offshore banks. Banks and professional groups generally support the steps taken by the central bank. At the request of the Central Bank, the lawyers and accountant associations requested their members notify the associations of any work performed on behalf of certain terrorist organizations. Both associations are cooperating closely with the central bank.

A substantial amount of money was illegally transferred out of Yugoslavia while former President Slobodan Milosevic was in office. Estimates range as high as four billion dollars with some of these funds believed to have been transferred through Cyprus. By April 2001, the GOC had turned over documents to the international war crimes tribunal in The Hague concerning possible money laundering by Milosevic and his associates. Some 250 bank accounts have been identified as belonging to Serbian offshore companies based in Cyprus.

The development of the offshore financial sector in Cyprus has been facilitated by the island's central location, a preferential tax regime, an extensive network of double tax treaties (particularly with Eastern

European and former Soviet Union nations), a labor force particularly well trained in legal and accounting skills, a sophisticated telecommunications infrastructure, and relatively liberal immigration and visa requirements. Services provided are confined to banks (total 2001 assets: U.S. \$10.8 billion), insurance services, company formation and relatively small fund management and advisory businesses.

Cyprus's offshore sector includes 29 banks, 28 licensed foreign insurance companies, 116 financial services companies, 20 companies that manage collective investment schemes, and 12 offshore trustee companies. The central bank has in place a strict regulatory framework aimed at preventing abuses within the offshore sector. Offshore banks are required to adhere to the same legal, administrative, and reporting requirements as domestic banks. The central bank requires prospective offshore banks to face a detailed vetting procedure to ensure only banks from jurisdictions with proper supervision are allowed to operate in Cyprus. Offshore banks must have a physical presence in Cyprus and cannot be brass plate operations (shell banks). Once an offshore bank has registered in Cyprus, it is subject to a yearly on-site inspection by the central bank. Offshore banks in Cyprus may accept deposits and make foreign-currency denominated loans to residents of Cyprus if the resident has obtained an exchange control permit from the central bank.

As of mid-2001, there were approximately 52,000 international business companies (IBCs) registered in Cyprus. However, approximately 16,000 of these remain active and about 1,000 have a physical presence in Cyprus. Russian IBCs constitute a "significant" share of the total number of active IBCs. The central bank began an intensive program in 2001 to identify inactive offshore companies and to delete them from the registry. Exact figures are unavailable; however, the Central Bank is believed to have deleted approximately 18,000 companies from the registry during 2001. The names of beneficial owners of IBCs can be released to law enforcement by court order. The popularity of the offshore sector can be explained in part, as noted above, by the GOC's dual-tax treaties with 26 nations, including Russia. Profits of Cypriot offshore companies are taxed at a rate of only 4.25 percent. Moreover, there is no tax on dividends, and foreign employees are required to pay only half the normal Cypriot income tax rate. IBCs may keep freely transferable currency accounts both abroad and in Cyprus. If an IBC is registered as an offshore partnership, profits are not taxed. Cyprus does not permit bearer shares.

In March 2001, the IMF conducted an assessment of the offshore sector in Cyprus. In its final report, published in July 2001, the IMF concluded that although lack of resources meant that onsite supervision was less than optimal, Cyprus's supervision of the offshore sector was generally "effective and thorough." The IMF characterized Cyprus' anti-money laundering legislative framework, as well as measures imposed by the central bank and other regulatory authorities, as being adequate. The report noted that, as in other offshore jurisdictions, there was still scope to improve the identification of beneficial owners and the reporting of suspicious transactions, particularly in the case of non-resident controlled companies.

The IMF report noted that Cyprus planned to abandon, by 2005, its existing framework of tax preferences for offshore businesses. Cypriot authorities are drafting a new Financial Services Bill that will extend supervision to cover all investment services in Cyprus, including some domestic businesses currently outside the scope of the current supervisory framework. These steps will eliminate the differentiation between onshore and offshore businesses in Cyprus. This will also assist in clearing the way for Cyprus's accession to European Union (EU) membership.

Cyprus is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. Cyprus is a member of the Council of Europe's PC-R-EV, and is a member of the Offshore Group of Banking Supervisors. The UCML is a member of the Egmont Group. Cyprus and the United States have signed a Mutual Legal Assistance Treaty, but it is not yet in force. In 1997, the GOC entered into a bilateral agreement with Belgium for the exchange of information on money laundering.

Cyprus has put in place a comprehensive anti-money laundering legal framework that meets international standards. Recent central bank rules requiring banks to identify the beneficial owners of new accounts should be extended to cover existing bank accounts whenever there is a significant change in the

ownership or control of the corporate or trust account holder. The GOC could enhance enforcement of its anti-money laundering laws by authorizing UCML to conduct unannounced inspections of the bank compliance officers and to also examine suspicious activity reports filed with the Central Bank. In addition, as noted by the IMF, it should ensure that the identities of beneficial owners are easily accessible by law enforcement.

(Cyprus has been divided since the Turkish military intervention of 1974, following a coup d'état directed from Greece. Since then, the southern part of the country has been under the control of the Government of the Republic of Cyprus. The northern part is controlled 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.)

It is more difficult to evaluate anti-money laundering efforts in the "Turkish Republic of Northern Cyprus" ("TRNC") but there continues to be strong evidence of a growing trade in narcotics with Turkey and Britain, as well as significant money laundering activities.

"TRNC" authorities have enacted a money laundering law for northern Cyprus, which went into effect in November 1999. The main thrust of the law was to reduce the number of cash transactions in the "TRNC" as well as to improve the tracking of any transactions above U.S. \$10,000. The law also provides for the creation of an experts committee to advise "TRNC" authorities on combating money laundering as well as for the seizure of assets.

The law is an adjunct to the "TRNC's" Exchange Control Law of 1997, which requires banks to report to the "central bank" any movement of funds in excess of \$100,000. Such reports must include information identifying the person transferring the money, the source of the money, and its destination. The law also proscribes individuals entering or leaving the "TRNC" from transporting more than U.S. \$10,000 in currency. Under the new law, banks, non-bank financial institutions, and foreign exchange dealers must report all currency transactions over \$20,000 and suspicious transactions in any amount. Banks must follow a know-your-customer policy and require customer identification. Banks must also submit suspicious transactions to a central multi-agency committee that will function as an FIU and have investigative powers.

"TRNC" officials believe that its 24 essentially unregulated casinos are the primary vehicles through which money laundering occurs. There is also an offshore sector, consisting of 40 banks and 12 IBCs. The offshore banks may not conduct business with "TRNC" residents and may not deal in cash. However, these banks are not audited and their records are not publicly available. Reportedly, a new law will restrict the granting of new bank licenses only to those banks already having licenses in an OECD country.

In spite of a growing awareness in the "TRNC" of the danger represented by money laundering, it is clear that "TRNC" regulations fail to provide effective protection against the risk of money laundering. The new law of the "TRNC" provides better banking regulations than were previously in force. The major weakness continues to be the "TRNC's" many casinos, where a lack of resources and expertise leave that area, for all intended purposes, unregulated, and therefore, especially vulnerable to money laundering abuse.

**Czech Republic.** Both geographic and economic factors render the Czech Republic vulnerable to money laundering. The country straddles Europe, with Poland and Slovakia, which separated from the Czech Republic less than a decade ago, to the east, Germany to the west and Austria to the south. Narcotics-trafficking, smuggling, auto theft, arms trafficking, tax fraud, embezzlement, racketeering, prostitution, and trafficking in illegal aliens are the major sources of funds that are laundered in the Czech Republic. Domestic and foreign organized crime groups target Czech financial institutions for laundering activity; banks, currency exchanges, casinos and other gaming establishments, investment companies, and real estate agencies have all been used to launder criminal proceeds.

The Czech Republic's anti-money laundering legislation, Act N°61/1996 Concerning Some Measures against Legalization of Proceeds of Criminal Activity and Amending Legislation Thereto, became effective

in July 1996. Money laundering was technically criminalized in September 1995 through the addition of Articles 251 and 251a to the Czech Criminal Code. The Criminal Code does not explicitly mention money laundering, but the criminal provisions do apply to financial transactions involving the proceeds of all serious crimes. The Financial Action Task Force (FATF) report of July 2001 on the Czech Republic suggests nevertheless that the current legislative configuration constitutes a major weakness in the country's anti-money laundering regime.

Ministry of Finance Decree N°183 formally established the Czech Republic's financial intelligence unit, the Financial Analysis Unit (FAU), and outlines how financial institutions are to comply with the reporting of suspicious transactions. The FAU is a member of the Egmont Group, and is authorized to cooperate with its foreign counterparts, even those not part of the Egmont Group.

The Czech Parliament has failed to pass legislation that completely eliminates anonymous passbook accounts. Czech officials argue that the existing accounts are of limited use for money laundering because customer identification is required for deposits and withdrawals that exceed 100,000 Czech crowns (approximately U.S. \$2,700). While the prohibition of new anonymous accounts beginning in mid-2000 is considered to be a major step forward, the continued existence of prior anonymous accounts remains, in the eyes of the FATF reviewers, a clear weakness in the effort to combat money laundering.

In addition to identifying these weaknesses, FATF has reported that insufficient requirements for the identification of beneficial owners that are legal persons severely hamper money laundering investigations in the Czech Republic.

The Czech Republic participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), and in 1998, underwent a mutual evaluation by the Committee. The Czech Republic continues to implement changes to its anti-money laundering regime based on the results of the mutual evaluation. The United States and the Czech Republic have a Mutual Legal Assistance Treaty, which entered into force in May 2000. The Czech Republic is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. The Czech Republic has signed Memoranda of Understanding (MOUs) on information exchange with Belgium, France, Italy and Bulgaria.

The Czech Republic has made progress. A revision in May 2001 of the Criminal Code has facilitated the seizure and forfeiture of bank accounts. There has been a significant increase in the number of suspicious transaction reports being transmitted to the FAU and, in turn, that are evaluated and forwarded to law enforcement, indicating an active participation of obliged entities in the anti-money laundering regime. After clarifications to the reporting requirements in 1996, reporting soared from 95 unusual transactions (1996) to 1,920 suspicious transactions in 2000. The number of reports forwarded to the police increased from none the first year to 103 in 2000. The Czech Republic is encouraged to continue adopting the suggestions of the PC-R-EV mutual evaluation report, to eliminate all anonymous passbook accounts, and to strengthen the requirements on identification of beneficial owners.

**Denmark.** Banking procedures in Denmark are transparent and are subject to government review, which discourages prospective money launderers and minimizes the likelihood of improper use of the banking system. Despite this, in response to a growing concern surrounding economic crimes in general, Denmark created the Serious Economic Crime Unit in 2000. The unit reports to the National Police Commissioner and consists of public prosecutors and police officers specifically trained in fighting economic crimes.

Money laundering is a criminal offense in Denmark, regardless of the predicate offense. Banks and other financial institutions are required to know, record and report the identity of customers engaging in significant transactions and maintain those records for an adequate amount of time. There are no secrecy laws in Denmark that prevent disclosure of financial information to competent authorities, and there are laws that protect bankers and others who cooperate with law enforcement authorities. Denmark has regulations in place that ensure the availability of adequate records in connection with narcotics



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investigations. Denmark has cooperated fully with U.S. authorities with regards to money laundering investigations.

Denmark is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. It participates in European Union anti-money laundering efforts, and its financial intelligence unit belongs to the Egmont Group. Denmark has endorsed the 1997 Basel Committee Core Principles for Effective Banking Supervision. Denmark is also a member of the Financial Action Task Force.

**Dominica.** Dominica has enacted legislation to address many of the deficiencies in its anti-money laundering program but implementation of its reforms remains vital to the country's ability to combat financial crime including money laundering.

Like many Caribbean jurisdictions, Dominica has sought to attract offshore dollars by offering a wide range of financial services and promises of confidentiality, low fees, and minimal government oversight. Dominica's financial sector includes 5 domestic banks and 3 offshore banks, 17 credit unions, 1,100 international business companies (IBCs) (a 5,000 reduction from last year), 4 Internet gaming companies, and 1 international exempt trust. Under Dominica's economic citizenship program, individuals could purchase Dominican passports as well as official name changes for approximately U.S. \$50,000 or U.S. \$75,000 in government bonds. Dominica's economic citizenship program was improperly controlled and came under fire as a way for individuals from the Peoples' Republic of China and other foreign countries to become Dominican citizens and enter the United States via Canada without visas. Between 1996 and 2000, the Government of Dominica (GOD) issued approximately 500 economic citizenships.

A rapid expansion of Dominica's offshore sector without proper supervision has made Dominica attractive to international criminals, and has prompted public criticism from international organizations. A February 2001 U.S. Senate report on correspondent banking alleged that the British Trade and Commerce Bank Ltd. (BTCB), a Dominican offshore bank, was involved in suspicious transactions involving millions of dollars from financial fraud operations. The GOD revoked BTCB's license two weeks later after an on-site bank inspection.

In June 2000, the Financial Action Task Force (FATF) identified Dominica as non-cooperative in international efforts to combat money laundering. The FATF in its report of June 2000 cited several concerns: outdated anti-money laundering legislation, inadequate identification of corporate owners and bank customers, and a largely unregulated offshore sector. The U.S. Department of Treasury also issued an advisory to U.S. financial institutions in July 2000 warning them to "give enhanced scrutiny" to financial transactions involving Dominica.

In response to pressure from the international community, the GOD enacted a number of reforms to address the deficiencies in its financial sector. In July 2000, the Finance Minister announced a comprehensive review of all offshore banks and the establishment of an Offshore Financial Services Council (OFSC). An agreement between the OFSC and the Eastern Caribbean Central Bank (ECCB) in December 2000 placed Dominica's offshore banks under the direct supervision of the ECCB. The agreement specified licensing and ongoing supervision requirements. The ECCB already supervised Dominica's domestic banks. Three joint offshore bank inspections by the ECCB and the Ministry of Finance's International Business Unit (IBU) resulted in the revocation of at least three licenses in 2001.

Dominica has enacted anti-money laundering legislation since 2000. The Money Laundering (Prevention) Act (MLPA) No. 20 of December 2000 (effective January 2001) and its July 2001 amendments criminalize the laundering of proceeds from any indictable offense. The MLPA requires financial institutions to keep records of transactions for at least seven years. The MLPA authorizes the Money Laundering Supervisory Authority (MLSA) to inspect and supervise non-bank financial institutions and regulated businesses for compliance with the MLPA. The MLPA requires a wide range of financial institutions and businesses, including offshore institutions to report suspicious transactions to the MLSA, which will then send the reports to the Financial Intelligence Unit (FIU); the MLSA is also responsible for developing anti-money

laundering policies, issuing guidance notes, and conducting training. The MLPA also requires persons to report cross-border movements of currency that exceed U.S. \$10,000 to the FIU. The FIU will analyze these reports of suspicious transactions and cross-border currency transactions, forward appropriate information to the Director of Public Prosecutions, and liaison with other jurisdictions on financial crimes cases.

The MLPA also authorizes the FIU to exchange information with foreign counterparts. A new Exchange of Information Act provides for information exchange between regulators. Dominican authorities have indicated that the FIU has five trained staff and has been operational since August 2001.

The MLPA also provides for freezing of assets for seven days by the FIU after which time a suspect must be charged with money laundering or the assets released; assets may be forfeited after a conviction.

The May 2001 Money Laundering (Prevention) Regulations, apply to all onshore and offshore financial institutions (including banks, trusts, insurance companies, money transmitters, regulated businesses, and securities companies). The regulations specify customer identification, record keeping and suspicious transaction reporting procedures and require compliance officers and training programs for financial institutions. Anti-Money Laundering Guidance Notes, also issued in May 2001, provide further instructions for complying with the MLPA and provide examples of suspicious transactions to be reported to the MLSA.

The Offshore Banking (Amendment) Act No. 16 of 2000 prohibits the opening of anonymous accounts, prohibits IBCs from direct or indirect ownership of an offshore bank, requires all banks licensed in Dominica to have a physical presence in Dominica, and requires disclosure of beneficial owners and prior authorization to changes in beneficial ownership of banks.

The International Business Companies (Amendment) Act No. 13 of 2000 (effective January 2001) requires that newly issued bearer shares be kept with an “approved fiduciary,” who is required to maintain a register with the beneficial owner name and address. It empowers the IBU to “perform regulatory, investigatory and enforcement functions” of IBCs. Additional amendments to the Act in September 2001 require previously issued bearer shares to be registered.

In June 2001, FATF determined that although Dominica had taken steps to remedy some of the deficiencies in its anti-money laundering regime, Dominica had made insufficient progress to warrant removing it from FATF’s list of non-cooperative countries in the international fight against money laundering. FATF noted that Dominica had not addressed fully several issues, including customer identification procedures, the retention of records and information sharing with administrative authorities.

On September 7, 2001, FATF recognized Dominica for its latest reform, a September 3 amendment to the Money Laundering (Prevention) Regulations that requires Dominican institutions to apply within one-year customer identification procedures for existing bank accounts. FATF also encouraged Dominica to address deficiencies identified in the area of trusts and invited Dominica to submit an implementation plan.

Dominica is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Dominica is also a member of the Caribbean Financial Action Task Force (CFATF). In May 2000, a Mutual Legal Assistance Treaty with the United States entered into force. Dominica is a party to the 1988 UN Drug Convention.

The GOD should fully implement and enforce the provisions of its recent legislation, provide additional resources for regulating offshore entities, and continue to develop the FIU in order to coordinate its own anti-money laundering efforts and cooperate with foreign authorities. Such measures will help protect Dominica’s financial system from further abuse by international criminals.

**Dominican Republic.** The Dominican Republic is a major transshipment point for narcotics moving from South America into Puerto Rico and the United States, and is vulnerable to narcotics-related money

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laundering. The Dominican Republic's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States. The smuggling of bulk cash by couriers and wire transfer remittances are the primary methods for moving illicit funds from the United States into the Dominican Republic. Once in the Dominican Republic, the use of currency exchange houses and money remittance companies are the primary mechanisms for laundering the illicit funds. In September 2001, a year-long investigation, known as Operation Sanctuary, resulted in the arrest of numerous individuals who were part of an international organization engaged in the illicit trafficking of multi-ton quantities of cocaine and the laundering of millions of U.S. dollars. The investigation was initiated by the Dominican Republic's National Drug Control Directorate (DNCD) and supported by law enforcement officials from the U.S., Puerto Rico and Venezuela.

The Government of the Dominican Republic (GODR) has taken steps to combat money laundering. Since December 1995, narcotics-related money laundering has been considered a criminal offense, and the law allows preventative seizures and criminal forfeiture of drug-related assets. It also authorizes international cooperation in forfeiture cases. Decree No. 288-1996 by the Superintendency of Banks requires banks, currency exchange houses, casinos, and stockbrokers to record currency transactions equal to or greater than the equivalent of U.S. \$10,000 in either domestic or foreign currency, and make this information available to law enforcement upon request. The Decree also obligates these financial institutions to identify customers and report suspicious financial transactions (STRs). Numerous narcotics-related investigations have been initiated under this 1995 Narcotics Law and substantial currency and other assets confiscated but there has never been a prosecution.

In 1997, the GODR established the Financial Analysis Unit (FAU) within the Superintendency of Banks to analyze and disseminate STRs information to the Financial Investigative Unit within the DNCD. The Unit investigates narcotics-related money laundering, and has authority to compel cooperation from other GODR agencies. The FAU is a member of the Egmont Group, and is authorized to exchange information with other financial intelligence units. In 1998, the GODR passed legislation that allows extradition of Dominican nationals on money laundering charges.

In 2000, the GODR proposed legislation that would expand the predicate offenses for money laundering beyond drug trafficking to other serious crimes such as arms trafficking; trafficking in humans or human organs; kidnapping; extortion; car theft; forgery of currency, bills, or securities; illicit enrichment; embezzlement; and bribery. The legislation also would require financial institutions to report to the FAU cash transactions that are greater than or equal to the equivalent of U.S. \$10,000 in domestic or foreign currency. Moreover, the legislation will require individuals to declare cross-border movements of currency that are greater than or equal to the equivalent of U.S. \$10,000 in domestic or foreign currency. The Senate passed the legislation in December 2001 and it now awaits action in the Lower House of the Congress.

The GODR is the current president of the Caribbean Action Task Force (CFATF), and a member of the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Experts Group to Control Money Laundering. The Dominican Republic is a party to the 1988 UN Drug Convention, and a signatory to the UN Convention against Transnational Organized Crime (December 2000). The GODR cooperates with the U.S. Government on counter narcotics and fugitive matters.

The GODR should enact pending anti-money laundering legislation and implement its provisions.

**Ecuador.** Drug trafficking organizations continue to exploit Ecuador's borders while money launderers benefit from the absence of an effective anti-money laundering program. Ecuador's adoption of the U.S. dollar as its national currency during 2000 could increase the attractiveness of Ecuador as a money laundering site. Several Ecuadorian banks maintain offshore offices, although these have come under tighter control as a result of banking legislation passed in 1994, could be used to channel illicit funds. There were no successful prosecutions specifically involving the financing of drug operations during 2001, although over 1.5 million of smuggled U.S. currency, believed to be related to drug sales, was seized.

The Narcotics and Psychotropic Substance Act of 1990 (Law 108) criminalizes illegal enrichment, conversion or transfer of assets, and prosecution of front men done in connection with drug trafficking. Regulations are in place (through Drug Law 108, 1994 Financial System Law, and 1996 Banking Superintendency Resolution) requiring financial institutions to report to the National Drug Council (CONSEP) any transaction in cash or stocks over U.S. \$5,000; and suspicious financial transactions. The CONSEP does not share this information with the Central Bank or other financial regulatory agencies, therefore, the Banking Superintendency cannot verify if the financial institutions are complying with the reporting requirements. A contradictory legal framework remains in place severely limiting the information that can be made available to law enforcement. The Ecuadorian National Police (ENP) must obtain a court order to search for and obtain financial information from banks and other financial institutions. However, private financial institutions and banks generally refuse to honor the orders claiming that, according to banking regulations, they are only required to respond to the Superintendency of Banks. The Superintendency of Banks will not accept request for information directly from police but requires that the request be made by the CONSEP, and provides the information back to the CONSEP, which often does not share with other agencies. A bill revising the Drug Law has been drafted to correct some of these deficiencies.

Ecuador's new Code of Criminal Procedures went into effect in July 2001 transforming the country's traditional inquisitorial system into an accusatorial one. The prosecutors can now decide which cases can precede and the judiciary will now hear criminal cases in oral trials as compared with the slow moving and predominantly written inquisitorial system. The National Police will continue to work as investigators but under the direction of the prosecutors.

Ecuador is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Ecuador is a member of the Organization of American States Inter American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Ecuador is also a member of the South American Financial Action Task Force (GAFISUD). There is a 1992 Financial Information Exchange Agreement (FIEA) between the Government of Ecuador (GOE) and the U.S. to share information on currency transactions.

The GOE should enact reforms to criminalize money laundering from any illicit activity, provide law enforcement authorities with effective investigative techniques, and take the necessary steps to construct a viable anti-money laundering regime to combat money laundering.

**The Arab Republic of Egypt.** Egypt is not a major regional financial center. The majority of funds laundered in Egypt represent proceeds from drug trafficking, organized crime, and evasion of international sanctions. Narcotics-related money laundering usually involves investment in real estate or business ventures. In a typical scheme, a launderer will invest through a trusted intermediary, such as a relative or a close friend. Because of widespread mistrust of banks and fear that banking records—despite Egypt's secrecy laws—could provide authorities with incriminating evidence, Egyptian money launderers rarely use the banking system.

Egypt has no law specifically criminalizing money laundering, does not have customer identification requirements for non-bank financial institutions, and contains no requirement that banks or other financial institutions report suspicious transactions to governmental authorities. Presidential Decree No. 205 of 1990, as amended by Law No. 97 of 1992, generally provides for banking anonymity, specifically that "all clients' accounts, deposits, trusts, and safes in banks, and all dealings related thereto shall be confidential." The law states in translation, however, that secrecy may be abridged through an order from the Cairo Court of Appeal "[i]f this is so necessitated unveiling a fact in a felony or misdemeanor of which the occurrence is established by substantiated evidences." The exact basis on which the Cairo Court of Appeal might grant such a court order is somewhat unclear.

The Egyptian government has shown some willingness to cooperate with foreign authorities in criminal investigations. For example, the United States and Egypt signed a Mutual Legal Assistance Treaty in May 1998, which will enter into force sometime in 2001. Egypt is a party to the 1988 UN Drug Convention,

and has signed but not yet ratified the UN Convention Against Transnational Organized Crime. The Egyptian government has signed legal and judicial cooperation agreements with the United Arab Emirates, Bahrain, Morocco, Hungary, Jordan, France, Kuwait, Tunisia, Iraq, and Algeria. It has signed other international agreements, including extradition agreements and mutual judicial recognition agreements, with Italy, Turkey, and Arab League Countries.

There have been some improvements to Egypt's anti-money laundering enforcement regime since the last reporting period. In June 2001, the Central Bank of Egypt (CBE) issued regulations containing customer identification and record-keeping provisions for banks under its control and requiring staff anti-money laundering training. The regulations, however, do not apply to non-bank financial institutions. In addition, while the regulations require banks to maintain information about "unusual transactions," there is no requirement to report these transactions to governmental authorities. Finally, while Egypt's Parliament has periodically debated enacting a law that would clearly criminalize money laundering, many Egyptian officials do not see such a law as urgent, believing that existing laws and regulations are adequate to combat money laundering.

In June 2001, the Financial Action Task Force (FATF) identified Egypt as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns: (1) the failure to criminalize money laundering; (2) the failure to establish an adequate suspicious transaction reporting system and financial intelligence unit; and (3) the failure to establish adequate customer identification requirements that apply to all financial institutions. The FATF also sought clarification on the evidence required to abridge Egypt's strict bank secrecy requirements.

Though the Egyptian government has made some attempt to improve the country's domestic anti-money laundering program and to cooperate internationally with criminal investigations, serious deficiencies remain. As a crucial first step to address these deficiencies, Egypt needs to pass a law clearly criminalizing money laundering. Additional necessary improvements include requiring the reporting of suspicious transactions to appropriate authorities (i.e., a financial intelligence unit), instituting customer identification and record-keeping provisions for all financial institutions, and the easing of bank secrecy requirements to protect Egypt's economy from infiltration by criminals.

**El Salvador.** Located on the southern coast of the Isthmus, El Salvador has one of the largest banking systems in Central America. Salvadoran banks' most significant financial contacts are those with its Central American neighbors, Mexico, the Caribbean, and the United States. The growth of El Salvador's financial sector and the increase in narcotics-trafficking in the region continue to make El Salvador quite vulnerable to money laundering. Criminals also launder funds generated from kidnapping. In addition, the Government of El Salvador's (GOES) dollarization of the economy in January 2001 increased the risk of money laundering. However, thus far the GOES aggressive anti-money laundering policies have resulted in the first money laundering prosecution and the entry of the GOES financial intelligence unit in 2001 into the Egmont Group.

The 1998 "Law Against Laundering of Money and Assets" criminalized money laundering related to drug trafficking and any other criminal activity. The Unidad de Investigación Financiera (UIF), the financial intelligence unit (FIU) within the Attorney General's Office, separate anti-money laundering units within the Policía Nacional Civil (PNC) and the central bank enforce the law's provisions. Financial institutions such as banks, exchange companies, stock exchanges, insurance companies, credit card companies, casinos, and real estate companies must identify their customers, maintain records for a minimum of five years, train personnel in identification of money and asset laundering, and establish internal auditing procedures. Covered institutions also must report suspicious transactions and transactions that exceed 500,000 colones (approximately U.S. \$57,000) to the UIF. The law also requires sworn declarations for those entering the country with more than 100,000 colones (approximately U.S. \$11,400), or its foreign equivalent, in cash or securities.

Although a provision of this law provides for asset identification and seizure, asset sharing with non-Salvadoran agencies has not yet been approved. Draft legislation would lower the threshold reporting

requirement to 100,000 colones (approximately U.S. \$11,400), and additionally require the declaration of outbound currency movements of 100,000 colones or more.

The UIF has been operational since January 2000. The UIF currently is composed of six individuals—three prosecutors (fiscales), one analyst, one computer technician and one secretary. From January 1 to October 31 2001, the UIF received 54 reports from 17 financial institutions, opened approximately 100 investigations involving over 500 subjects, and prosecuted three cases. The UIF also reported freezing approximately \$500,000 from various suspect bank accounts.

In June 2001 the UIF formally joined the Egmont Group. El Salvador is party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. El Salvador is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering.

The GOES should continue the aggressive anti-money laundering policies it has pursued over the last few years. It is urged to address the deficiencies in its anti-money laundering law and provide training for judges to ensure proper enforcement of its laws.

**Eritrea.** Eritrea is a small country that has a developing financial system. There are no reports of money laundering in Eritrea.

Eritrea is not a party to the 1988 UN Drug Convention.

**Estonia.** Estonia has one of the most developed banking systems of the former Soviet Union. Estonia permits credit institutions to participate in a variety of activities such as leasing, insurance, and securities. Russian organized crime groups are suspected of using financial institutions in Estonia and the other Baltic countries to launder money.

In 1999, Estonia implemented anti-money laundering legislation, and established the Information Bureau (IB) and a separate police unit to fight money laundering. Estonia's legislation requires financial institutions to report suspicious or unusual transactions to the IB. The reporting thresholds are: the equivalent of approximately U.S. \$11,000 for non-currency transactions; and the equivalent of approximately U.S. \$5,500 for currency transactions. However, Estonia has no formal system for ensuring that financial institutions comply with the reporting requirements. Moreover, the IB lacks authority to compel banks to disclose additional information. In 2001 Estonia established the Tax Police, which also has the authority to investigate money laundering and to seize assets and cash.

Estonia is a member of the Council of Europe (COE) Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). The IB is a member of the Egmont Group. Estonia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. A Mutual Legal Assistance Treaty is in force between the United States and Estonia.

The Government of Estonia should implement a system to ensure that banks actually comply with the reporting requirements and should take steps to develop a viable anti-money laundering regime that will enable it to fully participate in the global effort to thwart money laundering.

**Ethiopia.** Ethiopia is neither a regional financial center nor a haven for money laundering activities. Because inter-continental criminal, terrorist, and drug organizations operate within the region, Ethiopia is vulnerable to money laundering related activities. These can include illegal trade in narcotics, illegal gem and mineral trading, terrorist financing, human trafficking, and trafficking of animal products.

Money laundering is not a crime in Ethiopia. However, Ethiopia's underdeveloped financial infrastructure and lack of economic development make it unlikely that it will become a financial center in the foreseeable future. The country contains around 5 local banks as well as a government bank. Currently, there are no foreign banks that operate within the country. Foreign exchange controls limit possession of foreign currency, and the government controls the exchange of foreign currency into local currency.

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Banks are required to know and report the identity of their customers making significant (unspecified) transactions. Banks must also maintain account records.

Ethiopia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Fiji.** No significant money laundering appears to be taking place in Fiji. Money laundering is criminalized under the Proceeds of Crime Act, 1997. In addition, the Reserve Bank of Fiji has issued anti-money laundering guidelines to licensed financial institutions that require them to develop customer identification procedures, keep transaction and other account records for seven years, and report suspicious financial transactions to both the Fiji Police and the Reserve Bank of Fiji. These guidelines went into effect in January 2001. Approximately 50 suspicious transactions were reported in 2001.

There is no formal agreement between Fiji and the United States for cooperation on law enforcement matters or mutual legal assistance; however, Fiji has responded positively to all such requests from the United States.

Fiji is a party to the 1988 UN Drug Convention. Fiji is a member of the Asia/Pacific Group on Money Laundering.

**Finland.** Finland is not a regional financial or money laundering center. However, Finnish authorities are concerned about possible money laundering by Russian organized crime as well as money laundering arising from fraud or other economic crimes.

In 1994, Finland enacted legislation criminalizing money laundering related to narcotics-trafficking or other serious crimes. Legislation enacted in 1998 compels financial institutions and most non-bank financial institutions—excluding accountants and lawyers—to report suspicious transactions. The number of suspicious transactions reports (STRs) Finnish police have investigated has increased in the past three calendar years: 348 STRs in 1999, 1,109 in 2000, and 2,700 in 2001. Trafficking in narcotics was the predicate offense for 40 percent of money laundering convictions in 2001.

In 1998, Finland established a financial intelligence unit, the Money Laundering Clearing House (MLCH), to receive STRs from financial institutions. The MLCH is a member of the Egmont Group.

Finland is a member of the Financial Action Task Force and the Council of Europe. Finland is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**France.** France remains an attractive venue for money laundering because of its sizable economy, strong currency, political stability, and sophisticated financial system. Common methods of laundering money 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. France has enacted legislation that codifies the Financial Action Task Force (FATF) Forty Recommendations concerning customer identification, record keeping requirements, suspicious transaction reporting, internal anti-money laundering procedures, and training for financial institutions.

France criminalized money laundering related to all crimes with the adoption in 1996 of Act N° 93-392, “On the Fight against Money Laundering, Drug Trafficking and International Cooperation in Respect of Seizure and Confiscation of the Proceeds of Crime.” Even though this Act made money laundering in itself a general offense, some French courts do not allow joint prosecution of individuals on both money laundering charges and the underlying predicate offense, on the grounds that they constitute the same offense.

In July 2001, the French Parliament proposed a law that would ease the responsibility of banks to report large cash deposits during the introduction of the Euro. The law would temporarily raise the amount of money an individual could deposit (from FF50, 000 to 60,000) without the bank having to report the transaction to France’s financial intelligence unit, TRACFIN (the Treatment of Information and Action Against Clandestine Financial Circuits). The law would also suspend, from 1 December 2001 to 17

February 2002, the sanctions imposed on banks that fail to notify TRACFIN of such deposits, provided the banks are confident that the money being deposited is money being “hoarded.” The existing requirements that banks report all suspicious transactions will remain unchanged—banks currently face fines of FF2.5 to five million for failure to report such transactions, and bankers face up to ten years in prison.

Also in 2001, the Government of France (GOF) proposed additional anti-money laundering measures in order to bring the French regime into line with the newer, tougher European Union (EU) Directive on money laundering. These include requiring companies to disclose their nominee shareholders and giving the GOF the power to shut down shell companies being used in money laundering operations. However, the GOF will not address one aspect of the EU Directive: it will not require auditors and attorneys to report suspicious transactions, as called for in the Directive.

TRACFIN is responsible for analyzing suspicious transaction reports that are filed by French financial institutions. TRACFIN is a member of the Egmont Group, and may exchange information with foreign counterparts that observe similar rules regarding confidentiality of information. TRACFIN is establishing and leading France’s Liaison Committee against the Laundering of the Proceeds of Crime. This committee will be comprised of representatives from reporting professions and institutions, regulators, and law enforcement authorities.

As a member of the European Union, France is subject to EC Directive 91/308/EEC. France is a member of the FATF and a Cooperating and Supporting Nation to the Caribbean Financial Action Task Force. France 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. France has signed but not yet ratified the 2000 UN Convention against Transnational Organized Crime. The U.S. and France have entered into a Mutual Legal Assistance Treaty, which was ratified by the French Parliament and came into force in 2001. TRACFIN has information-sharing agreements with Austria, Italy, the United States, Belgium, Monaco, Spain, the United Kingdom, Argentina, Mexico, the Czech Republic, and Portugal.

France has established a comprehensive anti-money laundering regime. The GOF should build upon this regime by expanding suspicious transaction reporting requirements.

**Georgia.** Georgia has a small economy and is not a regional financial center. The scope of money laundering in Georgia involves small-scale schemes with proceeds from various illegal activities. 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. Corruption also remains an issue in Georgia. The National Bank of Georgia (the central bank) plays a growing role in regulating the banking industry.

Georgia’s criminal code of June 2000 does not criminalize money laundering, but makes it a crime to “transform illegal money into legal income” or to conceal the source, location or owner of property acquired illegally. Violators of this law are subject to imprisonment. The criminal code does not make any provisions for suspicious transaction reporting, and there are no legal safeguards to protect banks and other financial institutions that cooperate with law enforcement agencies. Currently, there are no controls on the amount of money that may be brought into the country. The money laundering controls that do exist are not applied to non-bank financial institutions. Most financial transactions in Georgia are conducted in cash.

The Constitutional Court has declared asset forfeiture and seizure legislation to be unconstitutional.

Georgia is a party to the UN Drug Convention and has signed the UN Convention against Transnational Organized Crime but not yet deposited an instrument of ratification.

**Germany.** Germany has the largest economy in Europe and a well-developed financial services industry. Russian organized crime groups, the Italian Mafia, and Albanian and Kurdish drug trafficking groups launder money through German banks, currency exchange houses, business investments, and real estate.



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The Money Laundering Act criminalized money laundering related to drug trafficking, fraud, forgery, and embezzlement, and imposed due diligence and reporting requirements on financial institutions. Under the current law, financial institutions are required to obtain customer identification for transactions exceeding deutsche marks (DM) 30,000 (approximately U.S. \$14,500) that are conducted in cash or precious metals, and maintain records necessary to reconstruct transactions of DM 30,000 or more. In November 2001, the European Union money laundering directive mandated that member states, which include Germany, standardize and expand “suspicious activity” reporting requirements to include information from notaries, accountants, tax consultants, casinos, luxury item retailers, and attorneys. A draft law is currently before parliament that addresses the European Union money laundering directive and stronger due diligence requirements. Since 1998, the Federal Banking Supervisory Office license and supervise money transmitters, and has issued anti-money laundering guidelines to the industry. Germany also has a law, which entered into force in 1998, that gives border officials the authority to compel individuals to declare imported currency of DM 30,000 or more.

The Government of Germany (GOG) moved quickly after the September 11, 2001 terrorist attacks in the United States, to identify weaknesses in their laws that permitted at least some of the terrorists to live and study in Germany, unobserved and unnoticed, prior to September 11. The Federal government has submitted, and the Federal Parliament has passed, two packages of legislation to modify existing laws. The first package closes large loopholes in German law that have permitted members of foreign terrorist organizations to live and raise money in Germany, and have allowed extremists to advocate violence in the name of religion under “religious privilege” protections. The second package went into effect January 1, 2002. It enhances the performance of Federal law enforcement agencies, and improves the ability of intelligence and law enforcement authorities to coordinate their efforts and share important information, as they attempt to identify terrorists residing and operating in Germany.

The GOG also announced new anti-money laundering measures in October 2001. Foremost among these measures, the GOG plans to form a unit within the Ministry of Interior to receive and analyze financial disclosures. The unit will be staffed with experts in financial market supervision, customs, and law. The unit will be responsible for building cases before they go to prosecutors for formal investigation. It will also exchange information with its counterparts in other countries. The newly proposed anti-money laundering package also requires the country’s banking supervisory authority to compile a central register of all bank accounts, including 300 million deposit accounts. Banks will use computers to analyze their customers and their financial dealings to identify suspicious activity. The proposed legislation also calls for stiffer checks on the background of owners of financial institutions and tighter rules for credit card companies.

Each of the 16 states in Germany has a joint, financial investigations unit (“Gemeinsame Finanzermittlungsgruppen” or GFG), comprised of customs and police officials. Responsibility for money laundering investigations rests at the state level in Germany. The GFGs analyze and investigate suspicious transaction reports (STRs) that have been filed by German banks. The U.S. Customs Service maintains a liaison relationship with several of these units, and initiates joint investigations when suspicious financial transactions involving the United States are identified. These investigations often are related to fraud rather than narcotics-trafficking. Although one of the GFGs has participated in Egmont Group activities, the GFGs are not considered FIUs and are not members of the Egmont Group.

The GOG has established procedures to enforce its asset seizure and forfeiture law. The number of asset seizures and forfeitures remains low because of the high burden of proof that prosecutors must overcome in such cases. German law requires a direct link to drug trafficking before seizures are allowed. German authorities cooperate with U.S. efforts to trace and seize assets to the extent that German law allows, and the GOG investigates leads from other nations. However, German law does not allow for sharing forfeited assets with other countries.

Germany’s strict data privacy laws have made it difficult for authorities to monitor and take action against financial accounts and transfers used by terrorist networks. The situation is changing rapidly in the

aftermath of the attacks on the U.S. The Germans have responded quickly to freeze the accounts of entities associated with terrorists. New measures introduced in the second security package require financial institutions to make more data on suspicious transactions available to authorities.

The GOG cooperates fully with the United States on anti-money laundering initiatives, though it does not have a Mutual Legal Assistance Treaty with the United States. The GOG exchanges information through bilateral law enforcement agreements such as the Customs Mutual Assistance Agreement.

Germany is a member of the Financial Action Task Force, the European Union, and the Council of Europe. Germany is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime.

Recently, the GOG has put forward a number of important proposals to further strengthen its anti-money laundering regime in 2002. The GOG's new anti-money laundering package reflects Germany's commitment to combat money laundering, and to cooperate with international governments. Germany's cooperation will be strengthened with the creation of a financial intelligence unit.

**Ghana.** Ghana is not a regional financial center. However, non-bank financial institutions such as foreign exchange bureaus are suspected of being used to launder the proceeds of drug trafficking, and the illegal trade in automobiles, diamonds, and gold. In addition, donations to religious institutions allegedly have been used as a vehicle to launder money. There have also been increases in the amount of "advanced fee" scam letters intercepted that originated in Ghana.

Ghana has criminalized money laundering related to drug trafficking and other serious crimes. However, financial institutions are not required to report large cash transactions. Law enforcement can compel disclosure of bank records for drug-related offenses, and bank officials are given protection from liability when they cooperate with law enforcement investigations. Ghana has cross-border currency reporting requirements. Moreover, the attorney general may require disclosure of assets sent out of the country. In 2001 the Bank of Ghana began drafting money laundering legislation that will increase the government's financial oversight capabilities.

The Narcotic Drug Law of 1990 provides for the forfeiture of assets upon conviction of a money laundering offense. The Government of Ghana in 2001 made no arrests or prosecutions related to money laundering.

Ghana participated in the formation of the Inter-Governmental Action Group Against Money Laundering (GIABA) at the December 2001 meeting of the Economic Community of West African States in Dakar. GIABA is not currently operational.

Ghana is a party to the 1988 UN Drug Convention. Ghana endorses the Basel committee "core principles" for banking supervision. Ghana has bilateral agreements for the exchange of money laundering-related information with the United Kingdom, Germany, Brazil, and Italy.

**Gibraltar.** Gibraltar is a largely self-governing, dependent territory of the United Kingdom, which assumes responsibility for Gibraltar's defense and international affairs. Gibraltar's offshore sector remains vulnerable to money laundering.

The Financial Services Commission (FSC) is responsible for regulating and supervising Gibraltar's financial services industry. It is obliged statutorily under its founding ordinance to match UK supervisory standards. Both onshore and offshore banks are subject to the same legal and supervisory requirements. Gibraltar has 21 banks, 11 of which are incorporated in Gibraltar, and all except one are subsidiaries of major international financial institutions. The FSC also is responsible for overseeing the activities of the Government of Gibraltar (GOG) offshore sector in the areas of trust and company management companies, insurance companies, collective investment schemes, and the formation of IBCs (of which there were 8300 registered by June 2000). Internet gaming is permitted by the GOG.

The Drug Offences Ordinance (DOO) of 1995 and Criminal Justice Ordinance of 1995 criminalize money laundering related to all crimes and mandate reporting of suspicious transactions by entities such as

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banks, mutual savings companies, insurance companies, financial consultants, postal services, exchange bureaus, attorneys, accountants, financial regulatory agencies, unions, casinos, charities, lotteries, car dealerships, yacht brokers, company formation agents, dealers in gold bullion, and political parties.

Gibraltar was one of the first jurisdictions to introduce and implement all crimes money laundering legislation. The Gibraltar Criminal Justice Ordinance to combat money laundering related to all crimes entered into effect in January 1996. Comprehensive anti-money laundering Guidance Notes were also issued to clarify the obligations of Gibraltar's financial service providers.

Also in 1996, Gibraltar established the Gibraltar Coordinating Centre for Criminal Intelligence and Drugs (GCID) in 1996, to receive, analyze, and disseminate information on financial disclosures filed by institutions covered by the provisions of Gibraltar's anti-money laundering legislation. The GCID is now known as the Gibraltar Financial Intelligence Unit (GFIU), and is a sub-unit of the Gibraltar Criminal Intelligence Department. The GFIU consists mainly of police and customs officers, but is independent of law enforcement. The GFIU has applied to join the Egmont Group of FIUs.

In 2000, the Financial Action Task Force (FATF) conducted a review of Gibraltar's anti-money laundering program against 25 specified criteria. Although Gibraltar was not identified by the FATF as non-cooperative in the international fight against money laundering, the FATF noted a number of concerns, particularly with regard to suspicious transaction reporting and customer identification and verification.

In response to the issues raised by the FATF, the GOG is currently drafting amendments to their anti-money laundering legislation. The amendments will provide direct reporting requirements of suspicious transactions, and extend the provisions of the anti-money laundering legislation to cover company formation agents and trust services providers. The FSC has been redrafting the anti-money laundering guidance notes to abolish the present system for introducer certificates, and to require institutions to review all accounts opened prior to April 1, 1995 to ensure that "know your customer" procedures are clear and up to the new standards. The FSC are also taking this opportunity to introduce new guidelines related to correspondent banking, politically exposed persons, and bearer securities. According to government officials all of these changes are expected to be ready and implemented by 2002.

Gibraltar has adopted the European Union (EU) Money Laundering Directive 91/308. The United Kingdom has not extended the application of the 1988 UN Drug Convention to Gibraltar. The Mutual Legal Assistance Treaty between the United States and the United Kingdom also has not been extended to Gibraltar. However, application of a 1988 U.S.-UK agreement concerning the investigation of drug trafficking offenses and the seizure and forfeiture of proceeds and instrumentalities of drug trafficking was extended to Gibraltar in 1992. Also, the DOO of 1995 provides for mutual legal assistance with foreign jurisdictions on matters related to drug trafficking and related proceeds. Gibraltar has indicated its commitment, as part of the EU decision on its participation in certain parts of the Schengen arrangements, to update mutual legal assistance arrangements with the EU and Council of Europe partners. Gibraltar is a member of the Offshore Group of Banking Supervisors (OGBS). The OGBS conducted an on-site evaluation of Gibraltar in April 2001. The report on Gibraltar will be discussed and approved later this year at the annual OGBS meeting. The Government of Gibraltar also invited the IMF to carry out an assessment in May 2001 of the extent to which the Gibraltar supervisory arrangements for the offshore financial sector complied with certain internationally accepted standards. The assessment was carried out on the basis of the "Module 2" assessment in accordance with the procedures agreed by the IMF's Executive Board in July 2000.

The GOG has established a comprehensive anti-money laundering program in response to international concerns. The Government should enact and implement amendments to its anti-money laundering legislation to provide for direct reporting requirements of suspicious transactions and extend the provisions of the anti-money laundering legislation to cover company formation agents and trust services providers.

**Greece.** While not a major financial center, Greece is vulnerable to money laundering related to drug trafficking, trafficking in women and children, arms smuggling, blackmail, and illicit gambling activities that are conducted by Russian and Albanian criminal organizations. In the establishment of business in general in Greece, there are weak requirements for disclosing sources of foreign capital. As a result, Greece's five private and two state-owned casinos are susceptible to money laundering. Greek authorities also consider the cross-border movement of illicit currency and monetary instruments to be a continuing problem.

The Government of Greece (GOG) criminalized money laundering derived from all crimes in 1995 with its seminal law, Prevention of and Combating the Legalization of Income Derived from Criminal Activities. The law imposes a penalty of up to ten years in prison and confiscation of the criminally derived assets. The law also requires that banks and non-bank financial institutions file suspicious transaction reports (STR). The new legislation passed in March 2001 makes money laundering a criminal offense when the property holdings being laundered are obtained through criminal activity or cooperation in criminal activity.

Banks must also demand customer identification when opening an account or conducting transactions that exceed EUR 15,000 (U.S. \$16,000). Greek citizens must provide a tax registration number if they conduct foreign currency exchanges of EUR 1,000 (U.S. \$950) or more, and proof of compliance with tax laws in order to conduct such exchanges of EUR 10,000 (U.S. \$9,500) or more. Banks and financial institutions are required to maintain adequate records and supporting documents for at least five years after ending a relationship with a customer, or in the case of occasional transactions, for five years after the date of the transaction.

Money laundering became an offense in the Greek Legislation under Presidential decree 2181/93. With this decree the banks are required to identify persons making an economic transaction of more than €15 000 and in case of doubts or suspicious of illegal activities, the bank can take reasonable measures to gather more information on the identification of the person. International transactions and foreign exchange dealings are especially under strict control. In 1995, new legislation (law n° 2331/95) was adopted to prevent and combat the legalization of income from criminal activities. The penalty for such criminal activity can be up to 10 years.

The Bank of Greece, through its Banking Supervision Department; the Ministry of National Economy and Finance, which supervises the Capital Market Commission; and the Ministry of Development through its Directorate of Insurance Companies supervise Greek credit and financial institutions. Supervision includes the issuance of guidelines and circulars, as well as on-site examinations aimed at checking compliance with anti-money laundering legislation. Supervised institutions must send to their competent authority internal control and communications procedures that they have implemented to prevent money laundering. In addition, banks must also undergo internal audits. Bureaux de changes are required to send to the Bank of Greece a monthly report on their daily purchases and sales of foreign currency. All persons entering or leaving Greece must declare to the authorities any amount they are carrying over EUR 2,000 (U.S. \$1,900).

Greece's central bank stepped up measures to counter money laundering as part of its effort to cooperate with an investigation by authorities in Belgrade into the illegal transfer of funds abroad during the rule of alleged war criminal and former Yugoslav President, Slobodan Milosevic.

The Law of 1995 established the Competent Committee (CC) to receive and analyze STR's and to function as Greece's financial intelligence unit (FIU). The CC is chaired by a senior judge and includes representatives from the central bank, various government ministries, and the stock exchange. If the CC believes that an STR warrants further investigation, it forwards the STR to the Financial Crimes Enforcement Unit (SDOE), a multi-agency group that functions as the CC's investigative arm. The CC is also responsible for preparing money laundering cases on behalf of the Public Prosecutor's office. The CC is a member of the Egmont Group of FIUs.

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The Ministry of Justice unveiled legislation on combating terrorism, organized crime, money laundering and corruption in March 2001. The Parliament had not passed this legislation by December 2001.

Greece is a member of the Financial Action Task Force, the European Union, and the Council of Europe. It is a party to the 1988 UN Drug Convention, and in December 2000 became a signatory to the UN Convention against Transnational Organized Crime.

The Government of Greece should extend and implement suspicious transaction reporting requirements for gaming and stock market transactions, and is urged to adopt more rigorous standards for casino ownership or investments.

**Grenada.** Money laundering and other financial crimes are concerns in Grenada because of the rapid expansion of the offshore sector and the Government of Grenada's (GOG's) failure to adequately supervise offshore entities. Although the Government of Grenada (GOG) has taken a number of steps to improve financial sector regulation, serious deficiencies remain in Grenada's anti-money laundering regime. The GOG also has failed to respond to U.S. requests for information involving money laundering offenses, further undermining Grenada's apparent commitment to cooperate in the international fight against money laundering.

Like many other Caribbean jurisdictions, the GOG has raised revenue from the offshore sector by imposing licensing and annual fees upon offshore entities. In the past, the GOG has been able to attract banks and other financial institutions to set up offshore companies in Grenada through low licensing fees, banking and corporate secrecy, and minimal offshore service regulation. As of December 2001, Grenada had 22 offshore bank and trust companies, 2 Internet gaming companies, 6 offshore insurance companies, 2 company managers, and 4,000 International Business Companies. Grenada's domestic financial sector includes 5 commercial banks, 15 registered domestic insurance companies, 22 credit unions and 2 money remitters. Until recently, the GOG allowed foreigners to buy economic citizenship and passports through an improperly regulated program that international criminals had abused. In light of the terrorist attacks upon the United States, the GOG reportedly suspended the practice of selling citizenship status and passports to foreigners in October 2001.

The collapse of the First International Bank of Grenada (FIBG) in 2000 highlighted serious deficiencies in Grenada's existing counter-money laundering regime. A U.S. citizen founded FIBG, an offshore bank, by purchasing a Grenadan passport and using assets from a Nauruan bank as well as fictitious documents to establish his financial worth. Beginning in 1998, the FIBG attracted depositors with promises of 250 percent returns. A liquidator's report issued in March 2001 estimated FIBG's liabilities at \$206 million and assets at \$46 million, and indicated that FIBG had transferred funds to accounts in Grenada, St. Vincent, Jersey, and Uganda. The report described layers of international offshore entities and pyramid schemes to attract customers and raise funds. The liquidator found that FIBG's deposit insurance program was a "sham" and concluded that since its inception, the business of FIBG had been carried on "with the intent to mislead depositors and creditors." In response, the Minister of Finance revoked 17 offshore bank and trust company licenses. The FIBG scandal prompted the GOG to accelerate the pace of legislative reforms concerning anti-money laundering and offshore sector regulation.

Grenada's Money Laundering Prevention Act (MLPA) of 1999, which came into force in 2000, criminalizes money laundering related to offenses that are otherwise punishable in Grenada by at least five years in prison. The MLPA also establishes a Supervisory Authority (SA) to receive; review and forward to local authorities suspicious activity reports from obliged institutions and imposes customer identification requirements on banking institutions.

The Grenada International Financial Services Authority (GIFSA) Act of 1999 has undergone some important changes recently. The GIFSA monitors and regulates offshore banking. A recent amendment to the GIFSA Act (n. 13 of 2001) eliminates the regulator's role in promoting the development of the offshore sector. Grenada's legal infrastructure diminishes the effectiveness of the GIFSA, however. Although the GIFSA is authorized to obtain customer account records from an offshore institution upon

request, it cannot compel an institution to produce these records without a court order. A recent amendment to the Offshore Banking (Amendment) Act n. 10 of 2001 seems to have made the process of obtaining a court order more difficult by requiring evidence of illegal activity “by” the licensee itself, as opposed to “in” the licensee. The GIFSA is further limited in its ability to combat financial crime because it has no authority to share customer information with foreign counterparts absent a court order. The GOG has proposed additional amendments to the GIFSA Act that would address these deficiencies.

In 2001, the GOG made some effort to regulate the issuance of bearer shares by international business companies (IBCs) and offshore banks. The International Companies (Amendment) Act n. 12 of 2001 requires beneficial ownership information for bearer shares to be registered with an agent and delivered to the SA. Prior to this amendment, individuals owning bearer shares in affected international companies could remain anonymous. The amendment, however, only applies to shares issued after the June 2001 commencement of the Act, and to companies conducting offshore banking, international insurance, company management, international trust business, or international betting businesses. Other international companies are not required to inform the SA of beneficial ownership.

The deficiencies in the International Companies Act also have diminished the effectiveness of the GOG’s recent amendments to the Offshore Banking Act. The Offshore Banking Act amendment of 2001 requires applicants for bank licenses to provide information relating to shareholders and beneficial owners. However, as banks may have issued bearer shares prior to June 2001, owners of these shares are not subject to registration requirements under the International Companies Act and, thus, cannot be identified and examined under the Offshore Banking Act.

In September 2001, the Financial Action Task Force (FATF) identified Grenada as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns: inadequate access by Grenadan supervisory authorities to customer account information; inadequate authority by Grenadan supervisory authorities to cooperate with foreign counterparts; and inadequate qualification requirements for owners of financial institutions.

Recently, the GOG established a financial intelligence unit (FIU) and appointed a staff of six to the unit. The FIU, which will operate within the police force, is charged with receiving suspicious activity reports from the SA and with investigating alleged money laundering offenses. The U.S. contributed computers, furniture, and equipment for the FIU new office. In 2001, the GOG appointed a staff of five to the SA, and in June, the SA issued anti-money laundering guidelines, pursuant to section 12(g) of the MLPA, that direct financial institutions to maintain records, train staff, identify suspicious activities, and designate reporting officers. The guidelines also provide examples to assist bankers to recognize and report suspicious transactions.

Mutual legal assistance and extradition treaties have been in force between Grenada and the United States since 2000 but the GOG has failed to respond to several mutual legal assistance requests from the United States. An extradition treaty entered into force between the U.S. and Grenada in 1999. Grenada is a member of the Caribbean Financial Action Task Force (CFATF), and underwent a CFATF mutual evaluation in November 1999. Grenada is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and is a party to the 1988 UN Vienna Convention.

Despite the GOG’s attempts to strengthen financial sector regulation in 2001, continuing legal deficiencies render the sector vulnerable to abuse. The GOG should ensure that all appropriate authorities have access to financial and business documents, including beneficial ownership information. The GOG should also fully train and fund the GIFSA, the SA, and the newly formed FIU. The GOG should also amend its information sharing in order to protect Grenada’s financial sector from fraud schemes and other types of financial crime.

**Guatemala.** Guatemala’s geographic location near drug producing countries and lack of a broad-based anti-money laundering regime historically makes the country vulnerable to money laundering. Officials of

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the Government of Guatemala (GOG) believe that criminals deposit their illegal proceeds in bank accounts and subsequently invest the funds in real estate or large commercial projects. Some law enforcement sources believe that the laundering of proceeds from kidnapping, tax evasion, vehicle theft, and corruption is on the rise.

The Guatemalan financial services industry is comprised of 32 commercial banks with an estimated U.S. \$6.5 billion in assets, 20 non-bank financial institutions, which primarily engage in investment banking and medium and long-term lending, 8 currency exchange houses, and 19 insurance companies. The Superintendent of Banks, which operates under the general direction of the Monetary Board, has oversight and inspection authority over the Bank of Guatemala, as well as banks, credit institutions, financial enterprises, securities entities, insurance companies, currency exchange houses, and other institutions as may be designated by the Bank of Guatemala Act.

On April 25, 2001, the Guatemalan Monetary Board issued Resolution JM-191 approving the “Regulation to Prevent and Detect the Laundering of Assets” (RPDLA) submitted by the Superintendent of Banks. The RPDLA, effective May 1, 2001, requires all financial institutions under the oversight and inspection of the Superintendent of Banks to establish counter-money laundering measures, and introduces requirements for transaction reporting and record keeping. Obligated institutions must establish money laundering detection units, designate compliance officers, and train personnel. They must identify all customers opening new accounts and report customers conducting transactions (cash or other types) of U.S. \$5,000 or more (or national currency equivalent) a day to the bank’s manager. Accounts opened prior to May 1, 2001, are not subject to the customer identification requirements of the RPDLA. If, however, a customer performs a cash transaction for more than U.S. \$5,000, the bank must fully identify the customer and the customer must submit the information regardless of when the account was opened. The regulation also requires obligated entities to monitor, record and report transactions considered “unusual” or “suspicious” to the Superintendent of Banks within ten days of detection.

The reforms instituted as a result of the RPDLA have yielded positive results to date. Following the issuance of the regulation, financial institutions began filing suspicious transaction reports and the process has led to an investigation by the Superintendent of Banks of a government official.

In June 2001, the Financial Action Task Force (FATF) listed Guatemala as a non-cooperative jurisdiction in the international fight against money laundering. In its report, the FATF noted: (1) Secrecy provisions in Guatemalan law constitute a considerable a significant obstacle to administrative authorities’ anti-money laundering efforts; (2) Guatemalan law fails to provide for the sharing of information between Guatemalan administrative authorities and their foreign counterparts; (3) Guatemala’s laws criminalize money laundering only in relation to drug offenses and not for all serious crimes; and (4) Guatemala’s suspicious transaction reporting system does not prohibit “tipping off” the person involved in the transaction.

Since the FATF designation, the GOG has taken important steps to reform its anti-money laundering program in accordance with international standards. In November 2001, Guatemala enacted Decree 67-2001, “Law Against Money and Asset Laundering” (LAMAL), to address several of the deficiencies identified by the FATF. Article 2 of the LAMAL expands the range of predicate offenses for money laundering from drug offenses to any crime. Individuals convicted of money or asset laundering are subject to a non-commutable prison term ranging from six to 20 years, and fines equal to the value of the assets, instruments or products resulting from the crime. Convicted foreigners will be expelled from Guatemala.

The LAMAL also adds new record keeping and transaction reporting requirements to those already in place as a result of the RPDLA. These new requirements apply to all entities under the oversight of the Superintendent of Banks, as well as several other entities including credit card issuers and operators, check cashers, sellers or purchasers of travelers checks or postal money orders and currency exchange. The requirements also apply to “off-shore” entities, which are described by the LAMAL as “foreign domiciled entities” that operate in Guatemala but are registered under the laws of another jurisdiction.

Among other things, the LAMAL prohibits obligated institutions from maintaining anonymous accounts or accounts that appear under fictitious or inexact names. Covered institutions are required to keep a registry of their customers as well as the transactions undertaken by them, such as the opening of new accounts, the leasing of safety deposit boxes, or the execution of cash transactions exceeding U.S. \$10,000 (or national currency equivalent). For cash transactions in excess of U.S. \$10,000, the LAMAL requires obligated institutions to maintain a daily registry of the transactions. Obligated institutions also must adopt measures to obtain, update and store information regarding the beneficial owners of accounts where there is doubt as to their true identity. The LAMAL obligates individuals and legal entities to report cross-border movements of currency in excess of U.S. \$10,000 (or national currency equivalent) with the competent authorities. Under the LAMAL, obligated entities must maintain records of these registries and transactions for five years.

The LAMAL also establishes the “Intendance for Verification” (IVE) within the Superintendency of Banks—the equivalent of a financial intelligence unit (FIU) to supervise obligated financial institutions to ensure compliance with the law. The IVE has the authority to obtain all information related to financial, commercial or business transactions that may be connected to money laundering. The IVE may impose sanctions on financial institutions for non-compliance. The LAMAL calls for the IVE to analyze the information it obtains, to offer domestic law enforcement support in connection with money laundering offenses and to exchange information with similar foreign entities pursuant to cooperative agreements. The IVE has 180 days from the effective date of the LAMAL to become operational.

The LAMAL obligates “off-shore” or foreign domiciled entities operating in Guatemala to comply with the same anti-money laundering measures (reporting and record keeping requirements) as other domestic institutions. The LAMAL, however does not subject these institutions to supervision for general legal compliance or inspection for safety and soundness by either the Superintendency of Banks or the IVE. A bill is pending before the Congress that would give the Superintendency of Banks regulatory and supervisory controls over offshore entities.

Corruption remains a significant problem in Guatemala.

Guatemala is a party to the 1988 UN Drug Convention. In November 2000, the GOG ratified the Central American Convention for the Prevention of Money Laundering and Related Crimes. In December 2000, the GOG signed the UN Convention against Transnational Organized Crime, but it has not yet deposited an instrument of ratification. Guatemala is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and plans to join the Caribbean Financial Action Task Force (CFATF).

The GOG should continue efforts to implement the reforms to its anti-money laundering regime, move forward with domestic regulation and supervision of the offshore entities, and invest the necessary resources to make its FIU operational.

**Guernsey.** The Bailiwick of Guernsey covers a number of the Channel Islands (Guernsey, Herm, Alderney, and Sark being the largest). Guernsey is a Crown Dependency of the United Kingdom. Its sophisticated offshore center continues to be vulnerable to money laundering as do the company and trust sectors.

In January 2000, the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law 1999, and its associated regulations, came into force. The legislation extends predicate offenses for money laundering to all serious crimes, including tax offenses, and addresses reporting of suspicious transactions. Under the provisions of the 1999 Law, all financial service businesses (including bureaux de change and cheque cashers) must abide by regulations concerning the identification of customers, record keeping, and international reporting procedures, etc. The Guernsey Financial Services Commission (FSC) has commenced on-site visits to bureaux de change to ensure that the businesses are in compliance with the regulations.



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In December 2000, the FSC prepared a consultation paper, jointly with the Crown Dependencies of Jersey and the Isle of Man, called “Overriding Principles for a Revised Know Your Customer Framework”, to develop a consistent approach on anti-money laundering. The consultation paper stated that each institution would have to conduct an exercise to check its way of doing business to determine that there is sufficient information available to prove identity.

Guernsey has 71 offshore banks that offer deposit taking and a range of other services, such as custodial, trust company, and fiduciary services. Guernsey also has 370 captive insurance companies, 25 life insurers, 62 insurance intermediaries, 40 domestic insurers, a comprehensive range of investment and fiduciary firms, approximately 7,500 international business companies, and 19 bureaux de change. The FSC is responsible for regulating Guernsey’s offshore industry. The FSC conducts on-site visits and analyzes assessments by auditors.

The Drug Trafficking (Bailiwick of Guernsey) Law 2000, which consolidated and amended legislation passed in 1998 and 1992, came into force in January 2001. The law establishes comprehensive money laundering offenses, including an offense of failing to disclose the knowledge or suspicion of drug money laundering. The duty to disclose extends outside of financial institutions to others, for example, bureaux de change and cheque cashers.

On April 1, 2001, the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 (“the Fiduciary Law”) came into effect. The Fiduciary Law was enacted to license, regulate, and supervise company and trust service providers. Under section 35 of the Fiduciary Law, the FSC created Codes of Practice for Corporate Service Providers; Trust Service Providers; and Company Directors. Under the law, all fiduciaries and corporate service providers and persons acting as company director of any business must be licensed by the FSC. In order to be licensed, these agencies must pass strict tests. These include possession of “know your customer” requirements and the identification of clients. They are subject to regular inspection, and failure to comply could result in the fiduciary being prosecuted and/or their license being revoked. In cases of serious or complex fraud, assistance can be provided by Guernsey’s Attorney General under the Criminal Justice (Fraud Investigation) (Bailiwick of Guernsey) Law 1991.

The Criminal Justice (International Cooperation) (Bailiwick of Guernsey) Law, 2001, furthers cooperation between Guernsey and other jurisdictions by allowing certain investigative information concerning financial transactions to be exchanged. Guernsey cooperates with international law enforcement on money laundering cases. The FSC also cooperates with regulatory/supervisory and law enforcement bodies. Guernsey is a member of the Offshore Group of Bank Supervisors.

As of April 2, 2001, suspicious transaction reports are filed with Guernsey’s financial intelligence unit, the Financial Intelligence Service (FIS). The FIS is a new unit that took over responsibility from the Joint Police and Customs Financial Investigation Unit (JFIU). FIS is the central point within Guernsey for gathering, collating, evaluating, and disseminating of all financial crime intelligence. The FIS is comprised equally of Police and Customs officers, most of who previously worked at the JFIU. The new unit places special emphasis on money laundering, and is a member of the Egmont Group.

Guernsey has, in place, all legislation required by the 1959 Council of Europe Convention on Mutual Assistance in Criminal Matters, the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime, and the 1988 UN Convention against the Illicit Traffic of Narcotics and Psychotic Substances. The Guernsey authorities have asked that the United Kingdom Government seek extension of these Conventions to the Bailiwick of Guernsey.

Guernsey has put in place a comprehensive anti-money laundering regime and cooperates internationally. The Government should devote more resources to ensure effective implementation of its anti-money laundering regime.

**Guyana.** Guyana is not an important regional financial center. Nevertheless, there is concern that both narcotics-related and non-narcotics-related money laundering takes place. A largely unregulated banking

sector, several independent currency exchanges and growing illicit trade in licit goods (particularly gold and diamonds) facilitate money laundering activities.

The Financial Institutions Act of March 1995 designated the Bank of Guyana, the central bank, as the sole financial regulator and extended the coverage of legislation, regulations and penalties to all deposit-taking institutions.

Although the Guyanese National Assembly passed The Money Laundering Prevention Act in February 2000, the legislation is not yet in force pending the creation of supervisory arrangements at the Bank of Guyana. The new law criminalizes money laundering related to narcotics and other serious crimes. The law requires that funds over U.S. \$10,000 imported into or exported from Guyana be reported. The legislation also establishes requirements for reporting suspicious transactions by banks and non-bank financial institutions. Records of suspicious activity reports will have to be kept for six years. Moreover, other provisions of the legislation require confidentiality in the reporting process, provide for good faith reporting, establish penalties for destroying records related to an investigation, and provide for asset forfeiture, international cooperation, and extradition for money laundering offenses. In 2001, the Caribbean Anti-Money Laundering Program began assisting Guyana with creating a financial intelligence unit.

Guyana's failure to bring into force and implement the February 2000 legislation has meant that financial institutions in Guyana currently are not required to know, record, or report the identities of customers engaging in large currency transactions, to report suspicious transactions, or to maintain transaction records. Guyana made no arrests or prosecutions for money laundering in 2001.

Guyana is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Guyana has not joined the Caribbean Financial Action Task Force (CFATF) but has indicated its intention to do so in 2002. Guyana would benefit by doing so and by actively participating in CFATF activities, including by undergoing a mutual evaluation.

Guyana is a party to the 1988 UN Drug Convention.

**Haiti.** A rise in drug trafficking, official corruption, and ineffective bank supervision has increased the vulnerability of Haiti to money laundering.

In addition to serving as a transshipment point for South American cocaine, Haiti is a venue for a major money laundering scheme that combines bulk cash smuggling with the black market peso exchange. Under this scheme Colombian traffickers smuggle U.S. drug proceeds into Haiti, often on the very boats by which the drugs were smuggled into the U.S. Once the money is placed in Haitian banks and effectively "bought" by Colombian peso brokers from the traffickers, the money is wired or sent by checks to Panama's Colon Free Zone to pay for goods purchased by Colombian businessmen. Law enforcement officials also believe that Dominican traffickers operating in the New York area smuggle drug proceeds to Haiti via the Dominican Republic to be placed in Haitian banks. However, there are indications that U.S. law enforcement efforts are having an effect on the depositing of drug proceeds into these banks.

Over the past two years, however, the Government of Haiti (GOH) has taken steps to address money laundering, including passing and beginning to implement an anti-money laundering law. In August 2000, the Central Bank of Haiti issued Circular 95. It requires banks, exchange brokers, and transfer bureaus to obtain declarations identifying the source of funds for transactions exceeding 200,000 gourdes (approximately U.S. \$8,500) or the equivalent in foreign currency. Covered entities must report these declarations to the competent authorities on a quarterly basis. Failure to comply can result in fines of 100,000 gourdes (approximately U.S. \$4,300). The Central Bank also can revoke the license of banks that fail to comply.

An August 2000 circular by the Ministry of Justice and Public Security created the legal basis for a "Unité Centrale de Renseignements Financiers (UCREF)," a centralized financial intelligence unit. After several years of stalled legislative efforts, in February 2001 the Haitian government approved the "Law on Money

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Laundering from Illicit Drug Trafficking and other Crimes and Punishable Offenses.” The law punishes the laundering of illicit assets with 3 to 15 years imprisonment and a fine of 2 million to 20 million gourdes (approximately U.S. \$85,000 to \$850,000). The law applies to a wide range of financial institutions, including banks, currency exchange agents, casinos, and real estate operations. The law prohibits payments in cash or bearer instruments greater than 200,000 gourdes, requiring them to go through a financial institution.

The money laundering law requires financial institutions to establish money laundering prevention programs and to verify the identity of customers, opening an account or conducting transactions that exceed 200,000 gourdes (approximately U.S. \$8,500). When transactions exceed 200,000 gourdes and are unusual or appear to have no economic or lawful purpose, financial institutions must also investigate the origin of these funds and prepare an internal report. The law establishes the “Service de Renseignements Financiers,” which may obtain these reports upon request. Haitian authorities indicated this is the same centralized financial intelligence unit (UCREF) established by the August 2000 circular.

Transactions exceeding 200,000 gourdes that seem to originate from a crime punishable by at least 3 years imprisonment must be reported to the UCREF. The UCREF will also receive the reports established in the Central Bank Circular 95. When the UCREF determines that there are serious indications of a money laundering crime, the UCREF will submit a report of findings to the judicial authorities. The law exempts “good faith” compliance reporting from civil and criminal liability.

The money laundering law also creates a National Committee for the Fight Against Money Laundering (“Committee”) within the Ministry of Justice and Public Security to oversee the UCREF. The Committee is mandated to promote, coordinate and recommend policies and procedures to prevent, detect and investigate money laundering.

In 2001 Haiti’s Central Bank and Ministry of Justice and Public Security formed a joint committee responsible to implement the UCREF according to international standards. The committee consults anti-money laundering authorities within the U.S. Government and the Caribbean Financial Action Task Force (CFATF). Haiti is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. Haiti is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. Haiti became a member of CFATF in October 2001.

The GOH needs to build upon its current efforts by vigorously moving to implement and enforce its new anti-money laundering law. The government should enact asset seizure and forfeiture laws and put in place cross border currency movement reporting requirements. The GOH also is urged to fully staff, train and fund the UCREF that is responsible for coordinating the government’s anti-money laundering efforts and working with foreign governments to help protect the Haitian economy from criminal abuse. The GOH should continue to work more closely with the CFATF, which will help provide additional regional guidance, support, and coordination in the fight against money laundering.

**Honduras.** Honduras’ vulnerabilities to money laundering stem primarily from significant drug trafficking throughout the region. The arrest of the Jimenez drug trafficking cartel in May 2001 on the North Coast of Honduras revealed an extensive money laundering operation and a variety of criminal activities including narcotics-trafficking, auto theft, kidnappings, bank fraud, smuggling, prostitution and corruption. In Honduras, money laundering takes place in the banking sector, and in currency exchange houses, casinos, and front companies as well. Corruption remains a serious problem particularly within the judiciary and law enforcement sectors.

Honduras’ current anti-money laundering program is based on Law No. 27-98 enacted in December 1997. The law criminalized the laundering of narcotics-related proceeds, and introduced customer identification (no anonymous bank accounts permitted), record keeping (five years) and transaction reporting requirements for financial institutions, including banks, currency exchange houses, money transmitters and check sellers/cashiers. Obligated financial institutions are required to record currency transactions

over \$10,000, and report 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. The law includes safe harbor provisions to protect financial institutions and their employees from civil and/or criminal liability when complying with such requirements. Casinos remain unregulated.

While there is general compliance with the \$10,000 currency transaction-recording requirement by financial institutions, there is virtually no reporting of unusual or suspicious financial transactions. Approximately 20 suspicious financial transactions have been reported over the past four years. In addition, there have been no successful money laundering prosecutions under the 1997 legislation, and mechanisms for the seizure, forfeiture and sharing of assets remain inadequate. Part of the difficulty with regard to prosecutions may center on the difficulty in establishing a direct link to drug trafficking, as required under the law and the general inexperience of public officials in investigating money laundering and financial crimes. Honduras has not yet established a financial intelligence unit. Comprehensive anti-money laundering legislation that would expand predicate crimes for money laundering to include all criminal activity, and promote more effective investigation of suspicious transaction reports, and establish a financial intelligence unit (FIU) is under review by the National Congress.

Honduras is a party to the 1988 UN Drug Convention and has signed the UN Convention Against Transnational Crime. Honduras is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering.

Honduras should pass comprehensive anti-money legislation that would expand the predicate crimes for money laundering to include all serious crimes and to work with the financial sector to improve compliance with existing reporting requirements. Honduras should establish a financial intelligence unit that would allow greater international cooperation.

**Hong Kong.** Hong Kong is a major international financial center. Its low taxes, sophisticated banking system, and absence of currency and exchange controls facilitate financial activity, but also make it vulnerable to money laundering. The primary sources of laundered funds are narcotics-trafficking, tax evasion, fraud, illegal gambling and bookmaking. Laundering channels include Hong Kong's banking, remittance, money transfer networks, and its underground banking system. Hong Kong is substantially in compliance with the Financial Action Task Force's (FATF) 40 recommendations and has developed a strong anti-money laundering regime, though improvements should be made. It is a regional leader in its anti-money laundering efforts and is serving as the 2001-2002 FATF President.

Money laundering is a criminal offense in Hong Kong under the Drug Trafficking (Recovery of Proceeds) Ordinance (DTRoP) and Organized and Serious Crimes Ordinance (OSCO). The money laundering offense now extends to the proceeds of drug-related and other indictable crimes. Money laundering ordinances apply to all persons, including banks and non-bank financial institutions, as well as to intermediaries such as lawyers and accountants. All persons must report suspicious transactions to the Joint Financial Intelligence Unit (JFIU). Financial institutions are required to record the identities of their customers and maintain records for five to seven years. Hong Kong law provides that the filing of a suspicious transaction report shall not be regarded as a breach of any restrictions on the disclosure of information imposed by contract or law. Statutes that came into effect in June 2000 require remittance agents and moneychangers to register and to keep transaction and customer identification records for cash transactions equal to or over U.S. \$2,564 (HKD 20,000).

There is no distinction made in Hong Kong between onshore and offshore banks or insurers, and no differential treatment for non-residents, including on tax, exchange controls, or disclosure of information regarding the beneficial owner of accounts or other legal entities. Hong Kong classifies banks according to their scope of business, there are three tiers of deposit-taking institutions: fully licensed banks, restricted license banks, and deposit-taking institutions. The Hong Kong Monetary Authority (HKMA) regulates banks. The Insurance Commission and the Securities and Futures Commission regulate insurance and

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securities firms, respectively. All three impose licensing requirements and conduct background checks on business applicants. Legally established casinos or Internet gambling sites do not exist in Hong Kong.

In Hong Kong it is not uncommon to use solicitors and accountants to set up shell or nominee entities to conceal ownership of accounts and assets. The concealment of the ownership of accounts and assets is ideal for the laundering of funds. Solicitors and accountants have filed only a handful of suspicious transaction reports in recent years.

Under the DTRoP and OSCO, a court may issue a restraint order against a defendant's property at or near the time criminal proceedings are instituted. The property includes money, goods, real property, and instruments of crime. A court may issue confiscation orders at the value of a defendant's proceeds from illicit activities. Cash imported into or exported from Hong Kong that is connected to drug trafficking may be seized, and a court may order its forfeiture. Hong Kong law provides for an application to be made by the overseas jurisdiction to share in assets realized. Hong Kong's mutual legal assistance agreements provide for asset sharing. Hong Kong has shared confiscated assets with the United States.

The government reintroduced to the legislature, in November 2000, an amendment to strengthen the DTRoP and OSCO. The amendment was designed to improve the chances of obtaining successful prosecutions by reducing the evidentiary threshold for money laundering offenses and suspicious transactions reporting. It would have increased penalties for money laundering offenses and strengthened confiscation provisions. The amendment did not pass due to opposition from the banking, accountancy, and legal sectors, and also legislator concerns that the lower evidentiary threshold might lead to conviction of innocent persons. The government intends to continue to pursue strengthened legislation in this area in 2002.

In 2001, the banking, securities, and insurance industries filed 6296, 65, and 29 suspicious transaction reports, respectively. From January to November 2001, there were 34 prosecutions for money laundering offenses and 5 convictions. The Hong Kong government reported no particular increase in financial crimes over the past year and has not found evidence to indicate narcotics proceeds are being used to fund smuggling activities.

Through the People's Republic of China, Hong Kong is subject to the 1988 UN Drug Convention, an active member of the FATF and the Offshore Group of Banking Supervisors, and also a founding member of the Asia/Pacific Group on Money Laundering. Hong Kong authorities cooperate with law enforcement agencies of other governments investigating narcotics-related financial crimes. Hong Kong has signed and ratified a mutual legal assistance agreement with the U.S., which came into force in January 2000. It has also signed mutual legal assistance agreements with Australia, France, the United Kingdom, New Zealand, Italy, the Republic of Korea, Switzerland, Portugal, the Philippines, Ireland, and Canada. Hong Kong has initialed such agreements with Israel, India, Argentina, Brazil, the Czech Republic, Germany, Poland, Singapore, and South Africa. These agreements provide for the exchange of information for all serious crimes, including money laundering. Hong Kong's banking supervisory framework has, in general, addressed all the areas covered by the 1997 Basel Committee Core Principles for Effective Banking Supervision. An amendment to the Banking Ordinance in 1999 allows the HKMA to disclose information to an overseas supervisory authority about individual customers subject to conditions regarding data protection. The JFIU is a member of the Egmont Group and is able to share information with its international counterparts.

Hong Kong should strengthen its anti-money laundering regime by establishing threshold reporting requirements for transactions exceeding specified amounts and put into place "structuring" provisions to counter evasion efforts. It should establish cross-border currency reporting requirements and encourage more suspicious transactions reporting by lawyers and accountants as well as business establishments, such as auto dealerships, real estate companies, and jewelry stores. Steps should also be taken to discourage the use of "shell" companies and other mechanisms that conceal the beneficial ownership of accounts. Hong Kong should consider more aggressive enforcement and strengthening of its laws on remittance agents and moneychangers.

**Hungary.** Hungary recently revised its anti-money laundering control program in response to three occurrences, namely, the Council of Europe's mutual evaluation of its program, the Financial Action Task Force's (FATF's) listing of Hungary as a non-cooperative jurisdiction in the fight against money laundering and the events of September 11th. These revisions not only improved Hungary's program but also hold promise of enhancing Hungary's ability to carry through successful money laundering investigations and prosecutions.

Hungary has a well-developed financial services industry and has a pivotal location in Central Europe. Criminal organizations from Russia and other countries are entrenched in Hungary. The economy is heavily cash based, with real estate often being purchased with cash. Hungary entered the offshore market in 1994 but prohibits offshore companies from providing financial and banking services. Hungary has licensed approximately 600 international business companies that are mainly owned by foreigners and enjoy a corporate tax rate of three percent as opposed to the usual rate of eighteen percent.

Beginning in the mid-1990s, Hungary has now put in place the legal infrastructure to help it combat financial crime and money laundering. The Government of Hungary (GOH) amended its criminal code (section 303) to criminalize money laundering related to all serious crimes. In 1994 the GOH enacted Act XXIV "On the Prevention and Impeding of Money Laundering," ("1994 Act") imposing reporting and record keeping requirements, internal control procedures and customer identification practices upon a broad range of financial institutions. Banks, insurance companies, securities broker/dealers, investment fund management companies and currency exchange houses must file suspicious transaction reports (STRs). Under recent legislation, a similar reporting obligation is being extended to various classes of professionals.

In April 2000, the Hungarian Financial Supervisory Authority (HFSA) and the National Bank of Hungary assumed the supervision of the financial sector for compliance with anti-money laundering requirements. Subsequently, all supervision responsibilities were consolidated in the HFSA. In summer of 2001, the HFSA issued its recommendations for its supervised institutions on best international practices with regard to reporting requirements, including STRs—these included recommendations for due diligence beyond the literal scope of the 1994 Act and in anticipation of the adoption of newly drafted legislation.

In June of 2001, the FATF designated Hungary as a non-cooperative jurisdiction in the fight against money laundering principally due to the existence of anonymous savings accounts and the lack of concrete plans for their elimination. In its accompanying report, the FATF also noted a deficiency in the fact Hungarian financial institutions failed to collect information concerning the beneficial owners of accounts.

In November of 2001, the Hungarian Parliament approved Bill No. T/5216 "On Combating Terrorism, on Tightening Up the Provisions on the Impeding of Money Laundering and on the Ordering of Restrictive Measures"—a legislative package that amended portions of the 1994 Act and included provisions for the phasing out of anonymous accounts (effective January 1, 2002). It also increased the number of professions, to include attorneys, that will be required to report suspicious activities, and mandated due diligence regarding the identification of beneficial owners.

Hungary has two units that are primarily responsible for combating money laundering. Hungary's financial intelligence unit, officially known as the Anti-Money Laundering Section (AMLS) of Hungary's National Police (ORFK), was established in 1995. A recent reorganization has placed the AMLS in the Directorate against Organized Crime—ORFK (SZBI). As a police unit, the AMLS investigates cases. Based on information derived from STRs, the GOH has initiated 10 money laundering investigations in the last several years. Two individuals were prosecuted—one acquitted and one convicted. Recent legislative changes, including one that clarifies that money laundering convictions can be obtained without conviction on the predicate offense, may well increase the numbers of money laundering prosecutions and convictions. The AMLS has considerable authority to request and release information, nationally and internationally, related to money laundering investigations. Staffing at the AMLS is expected to double in the next year. In addition to the AMLS, Hungary established in 2000 a criminal investigation bureau within the Tax and Financial Inspection Service to help spur tax and money laundering prosecutions.

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Hungary is party to a Mutual Legal Assistance Treaty with the United States and signed in January of 2000 a non-binding information-sharing arrangement with the United States, which is intended to enable U.S. and Hungarian law enforcement to work more closely to fight organized crime and illicit transnational activities. In furtherance of this goal, in May 2000, Hungary and the U.S. Federal Bureau of Investigation established a joint task force to combat Russian organized crime groups. Hungary has signed similar cooperation arrangements with 22 other countries and has arrangements for the exchange of information related to money laundering with Austria, Slovakia, and Cyprus.

Hungary is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) and underwent a mutual evaluation in 1998. Hungary has been a member of the Egmont Group since 1998, is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

Given its newly revamped anti-money laundering regime, the GOH should move forward aggressively to implement effectively its new legislation so that its program subscribes to the highest international standards.

**Iceland.** Money laundering is not considered a major problem in Iceland. A money laundering law based on the Financial Action Task Force's (FATF) Forty Recommendations requires financial institutions to identify all customers and to report large deposits and suspicious transactions. At the urging of the National Police Commission, banks record the name of every customer who seeks to buy or sell foreign currency.

A 1997 amendment to the criminal code criminalizes money laundering regardless of the predicate offense, although the maximum penalty for money laundering is greater when it involves drug trafficking. The first successful prosecution under the money laundering law occurred in 2001.

Iceland is a party to the 1988 UN Drug Convention and is a member of FATF. Iceland has signed but not yet ratified the UN Convention against Transnational Organized Crime. Its financial intelligence unit is a member of the Egmont Group.

**India.** As an emerging regional financial center, India is vulnerable to money laundering activities. Some common sources of illegal proceeds in India are narcotics-trafficking, illegal gems, smuggling, corruption, and terrorism. Large portions of these illegal proceeds are laundered through the alternative remittance system called "hawala" or "hundi." This system has the ability to transfer funds from one country to another often without the actual movement of currency, provide anonymity and security, convert currency into other currencies, and convert heroin, gold or other items into currency. All of this activity can be accomplished with little or no documentation. Invoice manipulation is pervasive and also is used extensively to launder illicit proceeds.

The Criminal Law Amendment Ordinance allows for the attachment and forfeiture of money or property obtained through bribery, criminal breach of trust, corruption, or theft and of assets that are disproportionate to an individual's known sources of income. The 1973 Code of Criminal Procedure, Chapter XXXIV (sections 451-459) establishes India's basic framework for confiscating illegal proceeds. The Narcotic Drugs and Psychotropic Substances Act of 1985 and its amendments call for the tracing and forfeiture of assets that have been acquired through narcotics-trafficking and prohibit attempts to transfer and conceal those assets.

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.

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.

In 1998, the Prevention of Money Laundering Bill was drafted. This legislation would criminalize money laundering, establish fines and sentences for money laundering offenses, impose reporting and record keeping requirements on financial institutions, and provide for the seizure and confiscation of criminal proceeds. Currently, new recommendations to the bill are being reviewed.

There have been a number of informal actions taken by individual banking institutions to combat money laundering. Banks tellers and operators are encouraged to utilize the "know your customer" rule. Foreign customers applying for accounts in India must show positive proof of identity when opening a bank account. Banks also require that the source of funds must be declared if the deposit is more than U.S. \$10,000. Finally, banks have the authority to freeze assets of accounts when there is suspicious activity. Currently, the Indian Banks Association has put together a working group to form a self-regulatory code for money laundering procedures. These procedures will include voluntary reporting suspicious transactions to law enforcement.

The Government of India does not have a financial intelligence unit. The Central Economic Intelligence Unit (CEIB) is the Government's lead organization for fighting financial crime. Also, the Central Bureau of Investigation is active in anti-money laundering efforts and hawala investigations. Other organizations such as the Directorate of Revenue Intelligence, Customs and Excise, the Reserve Bank of India, and the Finance Ministry are active in anti-money laundering efforts.

India does license offshore banking units (OBUs). These OBUs are required to be "...predominantly owned by individuals of Indian nationality or origin resident outside India and include overseas companies, partnership firms, societies and other corporate bodies which are owned, directly or indirectly, to the extent of at least 60 per cent by individuals of Indian nationality or origin resident outside India as also overseas trusts in which at least 60 per cent of the beneficial interest is irrevocably held by such persons." OBUs must also be audited to affirm that ownership by a non-resident Indian is not less than 60 per cent. These entities are susceptible to money laundering activities in part because of a lack of stringent monitoring of transactions. Finally OBUs must be audited, but the firm that does the auditing does not have to have government approval.

India is a party to the UN 1988 Drug Convention, and is a member of the Asia/Pacific Group on Money Laundering. In October 2001, India and the United States signed a mutual legal assistance treaty, which is not yet in force. India has also signed a police and security cooperation protocol with Turkey, which among other things provides for joint efforts to combat money laundering.

India should act to adopt and implement a comprehensive anti-money laundering regime, including the creation of a financial intelligence unit to share information with counterparts around the world.

**Indonesia.** Indonesia's economy is particularly vulnerable to money laundering because of its strategic geographic location, strict bank secrecy laws, public official corruption and lack of anti-money laundering legislation. In recent years, several Indonesian banks have become the targets of fraud schemes and corruption that might have been prevented if adequate safeguards had been in place; these banking scandals are symptomatic of the country's lax financial regulatory system.

In June 2001, the Financial Action Task Force (FATF) identified Indonesia as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns: lack of basic anti-money laundering provisions, including a failure to criminalize money laundering; the absence of a mandatory system of reporting suspicious transactions to a financial intelligence unit and unsatisfactory customer identification requirements.

On June 18, 2001, the Bank of Indonesia (BI) enacted Regulation No. 3 of the "Know Your Customer" Principles. The regulation contains customer identification and record keeping measures that would help



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counter money laundering. It should be noted that this regulation does not apply to walk-in customers whose transaction value does not exceed 100 million rupiah (U.S. \$8,800). There are regulations with requirements for monitoring and reporting of cross-border financial transactions, however these regulations are non-money laundering specific. However, more comprehensive legislation is needed to prevent and detect money laundering through financial institutions.

There are no laws at present that provide for a mandatory system that governs the reporting of suspicious transaction reporting to a competent authority. BI has, however, issued a regulation requiring banks to report suspicious transactions in the absence of the anti-money laundering legislation. An officer that is appointed by BI handles these reported transactions.

The Government of Indonesia (GOI) has begun to take steps to address some of the deficiencies in its anti-money laundering regime. The Indonesian Parliament is considering draft legislation entitled “The Eradication of Criminal Acts of Money Laundering,” which was submitted by the GOI in May 2001. The proposed law would criminalize money laundering, require suspicious transaction reporting by financial institutions, and mandate the reporting of currency transactions in excess of one hundred million rupiah and cross-border currency movements. The draft law also would establish the Commission for the Eradication of Criminal Acts of Money Laundering (KPTPPU). The KPTPPU, which is modeled after a financial intelligence unit, would receive and analyze currency and suspicious transaction reports, and would be authorized to provide international assistance in criminal money laundering investigations.

Currently, there is no financial intelligence unit dedicated to countering money laundering in Indonesia. Under the Bank Indonesia Act No. 23/99, BI may co-operate with other central banks and international organizations concerning matters related to the central bank’s tasks, including banking supervision. However, Indonesia does not yet have any administrative authority charged with overseeing anti-money laundering activities and receiving and analyzing suspicious transaction reports. There is little information on how the Commission will be structured or interface with other law enforcement organizations.

Indonesia is a member of the Asia/Pacific Group on Money Laundering, a party to the 1988 UN Drug Convention, and has signed but not yet ratified the 2000 UN Convention against Transnational Organized Crime. Indonesia has extradition treaties with the Philippines, Malaysia, Thailand and Australia. The treaty with Australia includes money laundering as an extraditable offense. In 1997, Indonesia signed a “Surrender of Fugitive Offenders” agreement with Hong Kong (which also covers money laundering).

The lack of a comprehensive anti-money laundering regime will continue to subject Indonesia’s financial system to crime and abuse. Indonesia should pass anti-money laundering legislation and enact additional bank supervisory practices that are consistent with accepted international standards.

**Iran.** Iran is not a regional financial center. Iranian law enforcement officials reportedly carry out financial investigations in the context of drug crimes. Iran does not have legislation that criminalizes money laundering, but a bill to do so is in the Majles.

Iran’s real estate market is widely used as an alternative remittance system. For example, real estate transactions take place in Iran, but no funds change hands there; rather, payment is made overseas. This typically is done because of the difficulty in transferring funds out of Iran and the weakness of Iran’s currency, the rial. The real estate market, in at least one instance, has been used to launder narcotics-related funds.

On December 26, 2001 Bank Karafarin received a license from the Central Bank of Iran, and became the first private bank to operate in 23 years.

Iran is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Ireland.** The primary sources of funds laundered in Ireland are derived from drug trafficking, fraud and tax offenses. Money laundering occurs in financial institutions and the bureaux de change. Additionally, investigations in Ireland indicate the continued use of professionals specializing in the creation of legal

entities as a means for laundering money. Trusts are also established as a means of transferring funds from the country of origin to “off-shore” locations. It has been difficult to establish the true beneficiary of the funds, which makes it difficult to follow the money trail and establish a link between the funds and the criminal.

The Criminal Justice Act 1994 criminalized money laundering relating to drug trafficking and other offenses. It also required financial institutions to report suspicious transactions and currency transactions exceeding approximately U.S. \$15,000, implement customer identification procedures and retain records of financial transactions. The law applies to banks, building societies, the Post Office, stockbrokers, Credit Unions, bureaux de change, life assurance companies, and insurance brokers. Subsequent legislation added requirements for the implementation of anti-money laundering programs for training in the identification of suspicious transactions.

The use of solicitors, accountants and “company formation agencies” in Ireland to create “shell companies” has been cited in a number of “suspicious transaction reports”, and in a number of requests for assistance from Financial Action Task Force (FATF) members. Investigations have disclosed that these companies are used to provide a series of transactions connected to money laundering, fraudulent activity and tax offenses. The difficulties in establishing the “beneficial owner” have been complicated by the fact that the Directors are usually nominees and are often principals of a solicitors’ firm or of a company formation agency.

In July 2001, the Government of Ireland (GOI) enacted the Company Law Enforcement Act 2001, to deal with problems associated with shell companies. This is the most important new companies act in more than 40 years. The legislation established the position of Director of Corporate Enforcement, whose responsibility it is to investigate and enforce the companies acts. Company law enforcement was previously the responsibility of the Minister for Enterprise, Trade and Employment. The changes are directed at ensuring a greater measure of compliance, and to follow the disclosure of major lapses by a range of inquiries in recent years. The Act also aims to correct a number of deficiencies in the area of insolvency law, which has become a concern given signs of an economic downturn. Under the new law, the beneficial director of a company will have to be named. The new Company Act will require all newly registered Irish companies to engage, in part, in business dealings within the State. It will also require the company’s director to be a resident in Ireland or the company must post a bond of 20,000 pounds as a surety for failure to comply with the appropriate company law. The GOI is setting up a new multi-agency unit to enforce the law, and is in the process of recruiting personnel.

Legislation was introduced in 2000 to combat money laundering by terrorist organizations. This legislation contains provisions addressing the forfeiture of property, if the property is used by or connected with any terrorist organization. The GOI has introduced new legislation targeting fund-raisers for both international and domestic terrorist organizations. The “Suppression of the Financing of Terrorism” bill will extend the existing powers of the GOI to seize property and/or other financial interests belonging to convicted criminals and terrorists. The bill will allow the Garda Siochana (the national police) to apply to court to freeze large sums of cash where certain evidentiary requirements are met. The GOI hopes to enact and implement the legislation in the first quarter of 2002.

The Bureau of Fraud Investigation serves as Ireland’s financial intelligence unit. The Bureau analyzes financial disclosures and is a member of the Egmont Group.

Since 1994, thirty individuals have been charged with money laundering and twenty convicted.

Ireland’s offshore banking is concentrated in Dublin’s International Financial Services Centre (IFSC). Approximately 400 international financial institutions and companies operate in the IFSC. Services offered include fiscal management, re-insurance, fund administration and foreign exchange dealing. The Central Bank of Ireland regulates the IFSC companies.

At the beginning of 2001, Ireland and the United States signed Mutual Legal Assistance in Criminal Matters Treaty (MLAT), however it is not in force. An extradition treaty between Ireland and the U.S. is

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already in force. Ireland is a member of the Council of Europe and FATF. Ireland is a party to the 1988 UN Drug Convention and signatory to the UN Convention against Transnational Organized Crime.

The GOI has developed a comprehensive program for combating money laundering. The GOI further strengthened Ireland's anti-money laundering regime this year through its new legislation, training to prevent money laundering, and its work with Europol to compare suspicious transactions. Expedient implementation of Ireland's new anti-money laundering laws, and continued stringent enforcement of all such initiatives, will ensure that Ireland maintains an effective anti-money laundering program.

**Isle of Man, The.** The Isle of Man (IOM) is a Crown Dependency of the United Kingdom located in the Irish Sea. Its sophisticated offshore center continues to be vulnerable to money laundering, particularly at the layering and integration stages.

In an effort to thwart money laundering, the IOM criminalized money laundering related to drug trafficking in 1987, and the Prevention of Terrorism Act 1990 made it an offense to contribute towards terrorist organizations, or to assist a terrorist organization in the retention or control of terrorist funds. The Criminal Justice (Money Laundering Offenses) Act of 1998 amended the Criminal Justice Act 1990 by criminalizing money laundering arising from all serious crimes. This legislation enabled the creation of the Anti-Money Laundering Code 1998 (as amended in 1999 and 2001), which includes a requirement for reporting suspicious transactions relating to all serious crimes, not just drugs or terrorism. In addition to obligations on financial institutions such as banks, fund managers, stockbrokers, insurance companies, etc., the Code also imposes reporting and "know your customer" obligations on financial businesses such as lawyers, registered legal practitioners, and accountants holding or handling clients' funds; corporate service providers and trust service providers.

Consistent with the current work of the Financial Action Task Force (FATF) in deciding on a common approach to identifying historical customers, there is an exemption from the requirement to identify customers where the business relationship was formed prior to December 1998, the date of the inception of the Code. However, in December 2000, the IOM Financial Supervision Commission (FSC) issued a consultation paper, jointly with the Crown Dependencies of Guernsey and Jersey, called "Overriding Principles for a Revised Know Your Customer Framework," to develop a more convergent approach on anti-money laundering. Among other issues, the consultation paper proposes that every institution would have to conduct an exercise to check their whole book of business to determine that there is sufficient information available to prove identity. Where it is concluded that there is insufficient information to prove the identity of a customer, the institution would be required to obtain documentation that will provide satisfactory evidence of customer identity. However, despite this, the FSC's Guidance Notes promote the best practice of bringing all customer accounts up to date in terms of identification.

In January 2002, the FSC will be issuing another paper which develops the original Overriding Principles proposals further, following which the FSC will be conducting detailed discussions with its license holders about how the various initiatives in the consultation paper can be consolidated into the Guidance Notes, including legislative changes where necessary. It is anticipated that this will take place later in 2002. The Insurance and Pensions Authority (IPA) will also be conducting a similar exercise with its license holders. In summary, the Overriding Principles proposals constitute a significant strengthening of the IOM's anti-money laundering regime. The Code is supplemented by Guidance Notes that define the obligations of the institutions under the Code. The IPA also issues Guidance Notes, which are periodically updated to take account of international developments, including terrorism.

One concern of the FATF was that, while there was an obligation to report suspicions or knowledge of money laundering under the drugs and terrorism legislation, reporting under the Code was "defensive" i.e., there was no obligation to report. However, a report could be quoted as a defense against a charge of having assisted in money laundering.

In response to this and other issues raised by FATF, the Criminal Justice Act 2001 was introduced June 21, 2001, further amending the Criminal Justice Act 1990. The amended law contains provisions dealing

with the proceeds of all crimes. It extends the power to confiscate to much wider ranging crimes, increases the penalties for a breach of money laundering codes, and repeals the requirement for the Attorney General's consent prior to disclosure of certain information. Previously, if the financial intelligence unit (FIU) wanted to forward a local disclosure to another island, the FIU had to go through the Attorney General. The law also addresses the disclosure of a suspicion of money laundering. It is now an offense to fail to make a disclosure, under all legislation, of suspicion of money laundering, whereas previously this just applied to drugs and terrorism legislation. The law also addresses the import and export of proceeds of crime in cash. Previously, if someone was stopped at an airport or seaport, law enforcement could only seize cash if there were reasonable grounds related to drugs or terrorism. Under the amended law, law enforcement only needs a suspicion of any criminal conduct.

As a result of the terrorist events in the United States on September 11, 2001, the Government of the IOM recently drafted the Prevention of Terrorism Act 2001. The purpose of the Act is to enhance reporting, by making it an offense not to report suspicious transactions relating to money intended to finance terrorism. The Government of the IOM is waiting to learn what comes of similar legislation from the United Kingdom (UK). The UK statute on the Prevention of Terrorism and the IOM statute will become effective during 2002. The FSC's anti-money laundering guidance notes have been revised to include information relevant to the terrorist events. The Guidance Notes were issued in December 2001.

Suspicious transactions reports are reported to the Fraud & Financial Investigation Unit (FFIU), the IOM's financial intelligence unit. The FFIU belongs to the Egmont Group.

The IOM's financial industry consists of approximately 16 life insurance companies; 26 insurance managers; more than 160 captive insurance companies; more than 14.5 billion pounds in life insurance funds under management; 59 licensed banks and two licensed building societies; 81 investment business license holders; 26.8 billion pounds in bank deposits; and 107 collective investment schemes with 4.9 billion pounds of funds under management. There are also 89 licensed corporate service providers, with approximately another 60 seeking licenses.

The FSC and IPA regulate the IOM financial sector. The FSC is responsible for the licensing, authorization and supervision of banks, building societies, investment businesses, collective investment schemes, corporate service providers and companies. The IPA regulates insurance companies. To assist license holders in the effective implementation of anti-money laundering techniques, the FSC held four seminars and additional workshop training sessions in partnership with the Financial Crime Unit (FCU) and the Isle of Man Customs & Excise, and on one occasion, the U.S. Customs Service. The FSC conducts on-site visits to assess the license holders' compliance with relevant legislation and the FSC's Guidance Notes. Based upon a review of the results of these visits, remedial action is taken where necessary, and tight deadlines are set for completion of any remedial measures by the license holder. A follow-up on-site visit is carried out within three months of the original visit in such cases. The IPA operates a similar regime.

The IOM is a member of the Offshore Group of Banking Supervisors. The IOM cooperates with international anti-money laundering authorities on regulatory and criminal matters. Application of the 1988 UN Drug Convention was extended to the IOM in 1993. The IOM is also assisting FATF Working Groups considering issues relating to customer identification and companies' issues. The IOM has fully implemented all UN Sanctions relating to terrorism and terrorist funding.

The IOM amended their anti-money laundering legislation in response to FATF concerns. The IOM has developed a comprehensive anti-money laundering regime, and has shown its commitment to combating financial crime. Full implementation of their new laws will ensure the success of the IOM's anti-money laundering program.

**Israel.** The government of Israel is in the process of strengthening its anti-money laundering regime and has enacted counter-money laundering legislation to support its efforts. Until Israel fully enacts implementing regulations pursuant to its counter money laundering law and until its financial intelligence

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unit (FIU) becomes fully operational and responds to requests from other FIUs, Israel's financial and banking sectors will continue to be vulnerable to money laundering and other financial crime.

U.S. and foreign law enforcement have seen the use of Israeli-based or linked accounts or targets in a variety of money laundering operations by international organized crime. In November 2001, Switzerland imposed sanctions on the Swiss branch of Israel's Bank Leumi for its involvement in the alleged money laundering activities of former Peruvian presidential adviser Vladimiro Montesinos.

In June 2000, the Financial Action Task Force (FATF) identified Israel as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns, which included the lack of mandatory suspicious reporting, adequate record keeping, failure to criminalize money laundering arising from serious crimes, and absence of a financial intelligence unit. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give "enhanced scrutiny" to certain transactions or banking relationships involving Israel.

Israel enacted the "Prohibition on Money Laundering Law" (PMLL), on August 8, 2000. The PMLL establishes a legal framework for an anti-money laundering system, but required the passage of several implementing regulations before the law could fully take effect. Among other things, the PMLL criminalizes money laundering and noted more than 18 serious crimes as predicate offenses for money laundering, in addition to offenses described in the Prevention of Terrorism Ordinance. The PMLL also authorized the issuance of regulations requiring financial service providers to identify, report and keep records for specified transactions for seven years. The law also provided for the development of a "competent authority" that will have the functions of an FIU.

In November 2000, Israel enacted an implementing regulation called for by the PMLL. The "Prohibition on Money Laundering (Reporting to Police)" regulation establishes mechanisms for reporting to the police transactions involving property that was used to commit a crime or that represents the proceeds of crime. Israel also enacted several other implementing regulations prior to 2002.

In June 2001, FATF determined that although Israel had taken steps to remedy deficiencies in its anti-money laundering regime, Israel had made insufficient progress to warrant removing it from FATF's list of non-cooperative countries.

Israel is continuing its efforts to reform its anti-money laundering system, and has enacted additional implementing regulations provided for by the PMLL. The "Prohibition on Money Laundering (The Banking Corporations Requirement Regarding Identification, Reporting, and Record Keeping) Order" was approved in 2001. The Order establishes specific procedures for banks with respect to customer identification for account holders and beneficial owners, record keeping, and reporting of irregular and suspicious transactions reporting. The "Prohibition of Money Laundering (Methods of Reporting Funds when Entering or Leaving Israel)," Order, also approved in 2001, requires individuals who enter or leave Israel with cash, bank checks or traveler's checks above the equivalent of \$12,500 to report that information to customs authorities. Failure to comply is punishable by imprisonment of up to six months and a fine of approximately \$37,000 or ten times the amount undeclared, whichever is greater.

Under the PMLL money laundering offenses are punishable by up to ten-years imprisonment and heavy fines. Since January 1, 2001 there have been 9 investigations related to money laundering, several of which may lead to prosecution.

Israel in December 2001 also passed the following regulations: the "Prohibition on Money Laundering (Obligations of Identification, Reporting and Keeping of Records by Insurer and Insurance Agent) Order," the "Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping of a Provident Fund and a Company Managing a Provident Fund) Order," the "Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record Keeping of Portfolio Manager) Order," and the "Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping of a Stock Exchange Member." These

regulations put in place requirements for customer identification, record keeping and reporting of irregular transactions upon their respective financial sectors.

Additional regulations called for by the PMLL address financial sanctions for covered institutions that fail to comply with their obligations under the PMLL and the postal bank were passed in 2001: the “Prohibition on Money Laundering (Financial Sanction) Regulations,” the “Prohibition on Money Laundering (Postal Bank Requirements Regarding Identification, Reporting and Record-Keeping)” Order, the “Prohibition on Money Laundering (Entry Into Force of Chapters Three to Five of the Prohibition on Money Laundering Law)” Order, and the “Prohibition on Money Laundering (Proclamation on the Establishment of the Competent Authority’s Data Base).”

Additional regulations called for by the PMLL have been drafted and presented to Israel’s Constitutional, Law and Justice Committee of the Knesset for consideration.

The GOI’s financial intelligence unit (FIU) is scheduled to become operational in February 2002. Israel is in the advanced phase of hiring staff and establishing a database to collect the reports that financial institutions are required to make under the PMLL. Currently elements within the police are responsible for investigating money laundering activities.

Under the Legal Assistance Law, Israeli courts are empowered, with respect to certain designated crimes and subject to certain procedures, to enforce forfeiture orders executed in foreign courts for crimes committed outside Israel. This ability has recently been enhanced by the new Prohibition of Money Laundering Law. Through September 2001, U.S. \$ 2.25 million in assets was seized by Israeli authorities and U.S. \$ 1.2 million was forfeited. This does not include assets in three cases before the Supreme Court that may amount to an addition of several million dollars. In 2000, U.S. \$3 million was seized and U.S. \$1.875 million was forfeited, and in 1999 U.S. \$2.75 million was seized and U.S. \$0.675 million was forfeited.

Israel and the United States cooperate under a Mutual Legal Assistance Treaty (MLAT). Informally, the GOI has cooperated with requests from U.S. law enforcement in matters of financial crime including those involving narcotics and terrorism. Israel continues to have difficulty providing responses to requests for bank records via the MLAT process, due to the lack of resources previously committed by the Israeli police to the task and the reluctance of Israeli banks to provide certified copies of bank records. The enactment of the PMLL will expand Israel’s authority to provide assistance regarding money laundering investigations. As of the end of 2001, Israel had not yet deposited an instrument of ratification for the 1988 UN Drug Convention. It has signed but not ratified the UN Convention against Transnational Organized Crime.

Israel should continue to enact all regulations pursuant to the Prohibition on Money Laundering Law and continue to implement all matters related to its evolving its anti-money laundering regime, including the development of an FIU that will be able to share information with foreign governments.

**Italy.** Italy’s financial sector is vulnerable to money laundering. Italian officials estimated in 2001 that about U.S. \$50 billion is laundered in Italy each year—equivalent to 4.2 percent of the GDP. Italy is also a drug consumption country and a transshipment point for moving illicit narcotics into Western Europe. Italian organized criminal groups—particularly those in the southern part of the country—continue to engage in narcotics and alien smuggling, contraband cigarettes smuggling, extortion, usury, and kidnapping, and launder the proceeds of these activities through Italian banks, casinos, real estate, and the gold market. For example, Italian, Albanian and Montenegrin criminal organizations form offshore companies to purchase bulk cigarettes that are marked for export, and smuggle them into Italy where they are sold tax-free throughout the European Union. This highly lucrative trade is made more attractive by relatively light penalties—a maximum of five years in prison.

In June 2001, Italian law enforcement arrested two Bologna businessmen in Operation Molocchio (Evil Eye) on charges of drug trafficking and money laundering. Officials described the two as white-collar criminals who served as commercial brokers for leading organized crime gangs. They laundered vast sums

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of the gangs' narcotics profits by investing the money in offshore companies involved in such activities as buying metals from Eastern Europe and exotic fruits from the Caribbean. The operation resulted in the confiscation of 17 real estate holdings, 2 yachts, 14 companies, 18 banks accounts, and stocks, for a total of U.S. \$20 million.

Italian law criminalizes money laundering related to felony offenses. A wide range of financial institutions—including stock brokerages, exchange houses, and insurance companies—must identify their customers, record and report transactions above 20 million lire (approximately U.S. \$9,800), and report suspicious transactions. In addition, institutions and individuals must report cross-border movements of currency that exceed 20 million lire. The Government of Italy (GOI) also has in place a system for tracing, freezing, seizing, and confiscating assets. In accordance with the Council of Europe procedures, the GOI is committed to sharing these assets with cooperating countries.

Decree No. 153/97 designates the Ufficio Italiano dei Cambi (UIC) to serve as the Italian financial intelligence unit and to act as the recipient of suspicious transactions reports (STRs). The Decree also provides a “safe harbor” provision for individuals who report suspicious transactions and creates an inter-ministerial commission to coordinate anti-money laundering among Italian law enforcement and regulatory agencies. The decree also establishes organizational links among agencies that are involved in the fight against organized crime, and encourages international cooperation against money laundering.

The UIC is a member of the Egmont Group. The UIC receives and analyzes financial disclosures, and forwards them to the appropriate law enforcement agency—the Anti-Mafia Directorate or the Guardia di Finanza—for further investigation when deemed necessary. The UIC also performs supervisory and regulatory functions such as issuing decrees, regulations, and circulars.

Italy is a member of the Financial Action Task Force (FATF). A member of the European Union, Italy 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. Italy has signed but not yet ratified the UN Convention against Transnational Organized Crime. Italy and the United States have a Mutual Legal Assistance Treaty and an extradition treaty in place, and cooperate on money laundering cases. Italy also has information sharing agreements with other countries for the exchange of information related to money laundering cases. The GOI also has a number of bilateral agreements with foreign governments in the area of investigative cooperation on drug trafficking and organized crime.

Although the GOI has comprehensive internal auditing and training requirements for its financial sector, implementation of these measures by non-bank financial institutions still lags behind that of banks, as evidenced by the relatively low number of STRs that have been filed by non-bank financial institutions. The GOI should increase its training efforts and supervision in the area of non-bank financial institutions to decrease their vulnerability to money laundering.

**Jamaica.** 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. Locally laundered money is used to acquire real assets, such as real estate or cars, rather than financial instruments. It is difficult, however, to distinguish between assets acquired from laundering operations and those resulting from legitimate remittances. The Government of Jamaica (GOJ) does not require declarations of cross-border movements of currency or monetary instruments, which cash couriers are exploiting to move large amounts of cash through Jamaica.

The GOJ passed the Money Laundering Act (MLA) in December 1996, which was implemented January 5, 1998. The MLA criminalized narcotics-related money laundering and introduced record-keeping and reporting requirements for banks and financial institutions for currency transactions over \$U.S. 10,000. The financial sector complained that the requirement to report threshold transactions involving U.S. \$10,000 or more in cash was an onerous burden. The MLA was amended in March 1999 to raise the reporting threshold to U.S. \$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). The

amendment excluded persons licensed to operate an exchange bureau or cambio, who have a reporting threshold of U.S. \$8000. In February 2000, the Act was further amended to expand the predicate offenses to include fraud, firearms trafficking, and corruption. A Ministerial Order requiring remittance agencies to report currency transfers is currently awaiting approval by the Parliament.

In October 2000, the Director of Public Prosecutions sent a letter to local banks, cambios, and building societies, requesting implementation of a new suspicious transaction reporting form that details why a transaction is considered suspicious. The form is intended to help investigators analyze whether a reported transaction is the result of money laundering.

Jamaica has established a Financial Crimes Division that encompasses a financial analysis unit to assist in the implementation of its anti-money laundering program. The Financial Crimes Division is responsible for receiving, analyzing, and developing information from suspicious activity reports (SARs). Although the unit officially began operations in July 2001, it is still defining job duties for employees, creating standard operating procedures, recruiting for a division director, and obtaining software.

Further action is needed in the area of asset forfeiture to permit the GOJ to take full advantage of this mechanism to augment the resources of its counternarcotics agencies. Jamaica has no civil forfeiture law; the 1994 Drug Offenses (Forfeiture of Proceeds) Act requires a criminal drug-trafficking conviction as a prerequisite to forfeiture.

Jamaica and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995. Jamaica is a party to the 1988 UN Drug Convention and a signatory to the UN Convention against Transnational Organized Crime. Jamaica is a member of the Caribbean Financial Action Task Force and the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. In March 2001, the GOJ ratified the Inter-American Convention Against Corruption and on November 10, 2001, Jamaica signed the International Convention for the Suppression of the Financing of Terrorism.

The GOJ is slowly making progress in bringing its anti-money laundering regime into line with international standards. The GOJ should institute declarations of large cross-border movements of currency or monetary instruments. The GOJ needs to broaden its anti-money laundering law to encompass all serious crimes and should reconsider its decision to amend the 1999 act that raised the threshold amount for reporting cash transactions from the generally accepted amount of \$10,000 to \$50,000. The GOJ should also ensure that the Financial Crimes Division is provided with the necessary resources to enable it to combat corruption and money laundering.

**Japan.** Japan is an important world financial center. As such, Japan is also a major money laundering center. The principal sources of laundered funds are drug trafficking and financial crimes (illicit gambling, extortion, abuse of legitimate corporate activities, and all types of property related crimes) as well as the proceeds from violent crimes, mostly linked to Japan's criminal organizations, e.g., the boryokudan. The Japanese National Policy Agency estimates that the boryokudan's illegal activities generate annually several billion dollars in proceeds. United States law enforcement reports that drug-related money laundering investigations initiated in the U.S. periodically show a link between drug-related money laundering activities in the U.S. and bank accounts in Japan.

Prior to 1999, Japanese law only criminalized narcotics-related money laundering. The Anti-Drug Special Law, which took effect in July 1992, criminalized drug-related money laundering, mandated suspicious transaction reports for the illicit proceeds of drug offenses, and authorized controlled drug deliveries. This legislation also created a system to confiscate illegal profits gained through drug crimes. The seizure provisions apply to tangible and intangible assets, direct illegal profit, substitute assets, and criminally derived property that have been commingled with legitimate assets. 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 severely limited the law's effectiveness. As a result, Japanese police and prosecutors have undertaken few investigations and prosecutions into suspected money laundering.



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Pursuant to the 1999 Anti-Organized Crime Law, which came into effect in February 2000, Japan expanded its 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 predicate offenses and to include value-based forfeitures, authorized electronic surveillance of organized crime members, and enhanced the suspicious transaction reporting system.

In response to the terrorist attack on the United States on September 11, 2001 the Financial Services Agency (FSA), which supervises the public-sector financial institutions and securities transactions, used the anti-money laundering framework provided in the newly enacted “Anti-Organized Crime Law,” where terrorists’ funds stem from crime proceeds, to request financial institutions to report transactions suspected of their connections with such individuals and/or entities as those designated by the Notices as those suspected to have relations with criminal activities. The FSA will classify and analyze information on suspicious transactions reported by financial institutions in relation to crime proceeds, and provide law enforcement authorities with information relevant to their investigation.

To facilitate exchange of information related to suspected money laundering activity, the law established the Japan Financial Intelligence Office (JAFIO) as Japan’s financial intelligence unit. Financial institutions in Japan report suspicious transactions to the JAFIO as instances of suspicious transactions are discovered.

Japanese banks and financial institutions are required by national laws to record and report the identity of customers engaged in large currency transactions. There are no secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law enforcement authorities. Under the 1998 Foreign Exchange and Foreign Trade Control Law, banks and other financial institutions must report transfers abroad of five million yen (approximately U.S. \$44,579) or more. Domestic laws also require banks and financial institutions to maintain records for an adequate period of time should they be needed to reconstruct significant transactions. This requirement is not specifically narcotics-related.

Japanese financial institutions have cooperated, when requested, with law enforcement agencies, including U.S. and other foreign government agencies investigating financial crimes related to narcotics. Japan has not adopted “due diligence” or “banker negligence” laws that make individual bankers responsible if their institutions launder money, but there are administrative guidelines in existence that require due diligence. The law does, however, protect bankers and other financial institution employees who cooperate with law enforcement entities.

The 1998 Foreign Exchange and Foreign Trade Control Law required travelers entering and departing Japan to report physically transported currency and monetary instruments exceeding one million yen (approximately U.S. \$8,916) or its equivalent in any other foreign currency to customs authorities. The reporting requirement is virtually ignored by travelers, however, because there is no meaningful penalty (i.e., seizure of currency) for failure to report.

Japan is a party to the 1988 UN Convention and has adopted formal articles of ratification. In December 2000, Japan signed the United Nations Convention against Transnational Organized Crime. Japan is a member of the Financial Action Task Force. The JAFIO joined the Egmont Group of FIUs in 2000. Japan is also a member of the Asia/Pacific Group against Money Laundering.

Japan has not enacted laws that allow for sharing of seized narcotics assets with other countries. However, the Japanese Government cooperates with efforts by the U.S. and other countries to trace and seize assets, and makes use of tips on the flow of drug-derived assets from foreign law enforcement efforts to trace funds and seize bank accounts.

The Government of Japan should stringently enforce the Anti-Organized Crime Law, which will enhance Japan’s ability to combat a wide range of money laundering activities. The Government of Japan has many legal tools and agencies in place to successfully detect, investigate, and combat money laundering. Japan could strengthen its anti-money laundering regime by enacting penalties for non-compliance with the

Foreign Exchange and Foreign Trade Law, adopting measures to share seized assets with foreign governments, and strongly enacting banker “due diligence” provisions.

**Jersey.** The Bailiwick of Jersey, one of the Channel Islands, is a Crown Dependency of the United Kingdom. Jersey’s sophisticated offshore services industry is similar to international financial services centers worldwide, vulnerable to money laundering at the layering and integration stages. The Jersey Financial Services Commission (FSC) regulates Jersey’s financial sector. The FSC is responsible for regulating Jersey’s banks, insurance companies, collective investment schemes, investment businesses, and trust company businesses (the business of forming and administering trusts and companies). The Company Registry also falls under the purview of the FSC.

Jersey’s main anti-money laundering laws are: The Drug Trafficking Offenses (Jersey) Law of 1988, which criminalized money laundering related to drug trafficking; the Prevention of Terrorism (Jersey) Law, 1996, which criminalized money laundering related to terrorist activity; the Proceeds of Crime (Jersey) Law, 1999; and The Investment Business (Jersey) Law, 1998, which brings investment advice, management, and dealing into regulation. The FSC is authorized to issue the Codes of Practice, and to inspect institutions to ensure businesses are in compliance. The reporting of suspicious transactions is mandatory under the drug trafficking and terrorism anti-money laundering laws. The Proceeds of Crime (Jersey) Law, 1999, extended the predicate offenses for money laundering to all offenses punishable by at least one year in prison. Offenses committed abroad are covered in cases where the conduct, if it had occurred in Jersey, would have constituted a predicate offense. There is no exception for fiscal offenses.

In February 2001, the Government of Jersey brought into effect the Financial Services (Jersey) Law. This legislation amended the Investment Business (Jersey) Law by extending Jersey’s financial regulations to Jersey’s approximately 300 trust and company services providers. Businesses that provide company administration, trustee, or fiduciary services are subject to the law. Secondly, in the course of providing such services, the person must provide any one of a number of services, such as being a company formation agent, a director, a secretary, the provider of registered office, the provider of accommodation address, or acting as trustee. Under the new law, the FSC can and does visit each business to ensure compliance with Codes of Practice. These Codes of Practice, which are established for investment and trust company businesses, set out the basic principles under which the business should be conducted. They include the requirement that the Island’s anti-money laundering defenses should be adhered to.

On July 17, 2001, Jersey and German Securities Regulators signed a cooperation agreement intended to increase information flow and mutual assistance between the two jurisdictions. The cooperation agreement will enhance information flow for investigating securities offenses such as insider dealing, market manipulation, and conducting financial business without a license. Jersey is the first offshore financial center to sign a Memorandum of Understanding (MOU) with the German Securities Regulator.

July 16-18, 2001, the Jersey FSC hosted a seminar, on the island, concerning international cooperation in the fight against financial crime. A total of 60 delegates from 15 countries attended the seminar. Participants included law enforcement agencies, justice departments, regulatory agencies and others. Discussion focused on developments in international standards in cooperation, and practical ways of improving cooperation.

In September and October 2001, the FSC reminded financial institutions of the sanctions in place preventing the movement of funds connected with certain territories. The FSC listed on its web site all names issued by the U.S. authorities in their search for any financial transactions connected with the atrocities in New York and Washington on September 11th. The FSC reminded financial institutions of the need to review their accounts for any connection with the listed persons and to make available suspicious transaction reports to the police. In addition, the FSC made available to financial services institutions other names issued by U.S. authorities for that purpose, but not for public distribution. The Jersey authorities have also put in place sanction orders freezing accounts of individuals connected with terrorist activity. Jersey also informed Department of State that employees of the FSC could be made

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available to participate with USG personnel in training jurisdictions that requested assistance in freezing terrorist assets and/or developing viable anti-money laundering regimes.

In November 2001, Jersey introduced the International Cooperation (Jersey) Law. This extends the powers of the Attorney General to provide assistance to other jurisdictions before charges are brought. Before the law was in place, the Attorney General's ability to provide assistance at the investigative stage was essentially limited to fraud and money laundering matters. The new law extends this ability to all serious crimes.

The island has established a financial investigation unit known as the Joint Police and Customs Financial Investigation Unit (JCFU). This unit is responsible for receiving, investigating, and disseminating suspicious transaction reports (STR). The unit includes Jersey Police and Customs officers, as well as a financial crime analyst. The JCFU is a member of the Egmont Group.

The financial services industry in Jersey consists largely of bank deposits of U.S. Dollars, 170 Billion; mutual funds of U.S. Dollars, 150 Billion; insurance companies (which are largely captive companies); investment advice, dealing and management companies (U.S. Dollars 50 Billion under management); and trust and company administration companies.

Approximately 30,000 Jersey companies are registered with the Commission. In addition to public filing requirements relating to shareholders, the Commission requires details of the ultimate individual beneficial owner of each Jersey registered company to be filed, in confidence, with the Commission. That information is available, under appropriate circumstances and in accordance with the law, to U.S. and other investigators. In addition, a number of companies that are registered in other jurisdictions are administered in Jersey. Some companies are known as "exempt companies" which means that they do not have to pay Jersey income tax and are only available to non-residents. Jersey does not provide "offshore" licenses. All regulated individuals are equally entitled to sell their services to residents and non-residents alike. All financial businesses must have a "real presence" in Jersey, and management must be in Jersey.

In 2000, the FATF also conducted a review of Jersey's anti-money laundering regime against 25 specified criteria. Jersey was not identified by the FATF as a non-cooperative country or territory (NCCCT) in the international fight against money laundering. However, the FATF, in its report, expressed concern that certain intermediaries were authorized to verify the identity of their customers. The report also noted the lack of a stringent scheme to apply the new rules of customer identification for accounts open prior to the entry into force of the Proceeds of Crime (Jersey) Law.

In response to the FATF concerns, the FSC issued a consultation paper (jointly issued in Guernsey and the Isle of Man) that set out a number of proposals for tightening, further, the essential due diligence requirements that financial institutions should meet regarding their customers. The paper proposed, *inter alia*, affirming the primary responsibility of all financial institutions to verify the identity of their customers, regardless of the action of intermediaries. The paper also proposed a progressive program to obtain verification documentation that was taken regarding customers before the Proceeds of Crime (Jersey) Law came into force in 1999. Final decisions on this paper have not yet been concluded.

Jersey plans to adopt the UN Convention for the Suppression of Terrorist Financing as soon as its domestic legislation, the Prevention of Terrorism (Jersey) Law 1996, is amended. This will enable Jersey to try individuals for terrorist crimes, notably the financing of terrorism committed outside Jersey. Application of the 1988 UN Drug Convention was extended to the Bailiwick of Jersey on July 7, 1997. Jersey does not have any formal Mutual Legal Assistance Treaties; however, Jersey officials cooperate with international requests for assistance.

Jersey has established a comprehensive anti-money laundering program, and has demonstrated its commitment to fighting financial crime. Jersey officials cooperate with international anti-money laundering authorities. Jersey is addressing the issues arising from the mutual evaluation report of the Offshore Group of Banking Supervisors (of which Jersey has been a member since its formation in 1979)

and the FATF NCCT report. The island will continue to match developing international standards in order to work with other authorities to defeat financial crime and terrorist financing.

**Jordan.** Jordan is not a regional financial center. The Central Bank of Jordan (CBJ), which regulates foreign exchange transactions, issued anti-money laundering regulations designed to meet Financial Action Task Force recommendations in August 2001. Under Jordanian law, money laundering is considered an “unlawful activity” subject to criminal prosecution.

Jordanian central bank and law enforcement officials report that financial institutions report suspicious transactions and cooperate with prosecutors’ requests for information related to drug trafficking cases. Jordan’s central bank has instructed financial institutions to be particularly careful when handling foreign currency transactions, especially if the amounts involved are large or if the source of funds is in question. The new Banking Law of 2000 waives banking secrecy provisions in cases of suspected money laundering.

Jordan is a party to the 1988 UN Drug Convention.

Jordan has taken steps toward constructing a viable anti-money laundering regime to protect against money laundering and to avoid the use of its financial institutions in the funding of terrorism. More experience in the implementation of the new system is needed to evaluate fully its effectiveness.

**Kazakhstan.** Kazakhstan’s relatively advanced financial infrastructure, combined with a significant organized crime presence, puts it at risk for money laundering. More than 200 organized crime groups with ties to similar groups in the United States and Europe are believed to exist in the country.

Kazakhstan has criminalized money laundering for narcotics and other serious crimes. However, inadequate financial controls make detection of money laundering difficult. Bank examiners are not trained to look for evidence of money laundering, but rather focus on traditional safety and soundness concerns. Banking laws require tax police and investigators to go through local prosecutors in order to obtain bank records. Records may be released only if the prosecutor deems an investigation is warranted.

Kazakhstan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Kenya.** Kenya’s capital, Nairobi, has approximately 50 banks and is a regional financial center for East Africa.

The Narcotics Drugs and Psychotropic Substances (Control) Act, 1994, section 49, criminalized money laundering related to narcotics-trafficking. Narcotics-related money laundering is punishable by a maximum prison sentence of 14 years. While there have been no arrests made pertaining to money laundering, the Government of Kenya (GOK) has participated with the United States in efforts to freeze terrorist financing.

According to GOK law, banks are required to maintain records on customers who conduct large transactions. Kenya is currently working toward establishing a viable anti-money laundering regime.

Kenya has signed the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) memorandum of understanding and is an active member. In August of 2001, representatives from Kenya attended the ESAAMLG Task Force and Ministerial Council Meeting in Windhoek, Namibia. Kenya is a party to the 1988 UN Drug Convention.

**Korea (Democratic Peoples Republic of Korea).** The money laundering situation within North Korea is unknown. North Korea’s self-imposed isolationism and secrecy as well as its refusal to participate in international organizations or assent to international conventions, such as the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, make knowledge of the role of North Korea’s financial system and drug trafficking supposition at best.

What little is known and documented, however, includes North Korea’s continued use of Macau as a base of operations for money laundering and other illicit activities. Macau is a useful intermediary, for it provides North Koreans with access to global financial systems. There are reports that Pyongyang also has

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used Macao to launder counterfeit U.S. \$100 bills and Macao's banks as a repository for the proceeds of North Korea's growing trade in illegal drugs.

**Korea (Republic of Korea).** Money laundering related to narcotics-trafficking has been criminalized since 1995 and financial institutions have been required to report transactions known to be connected to narcotics-trafficking to the Prosecutor's Office since 1997. All financial transactions using anonymous, fictitious, and nominee names have been banned since the 1997 enactment of the Real Name Financial Transaction and Guarantee of Secrecy Act.

The Financial Transactions Reports Act (FTRA), passed in September 2001, requires financial institutions to report suspicious transactions (STRs) to the financial intelligence unit (FIU) within the Ministry of Finance and Economy. The FIU will analyze STRs and forward information deemed to require further investigation to domestic law enforcement and the public prosecutor's office. Improper disclosure of financial reports is punishable by up to five years imprisonment and a fine of up to 30 million won (approximately \$25,000).

In November 2001 the Korean Cabinet issued regulations implementing the newly enacted Financial Transactions Reports Act and officially launched the FIU. The FIU will be composed of officials from various agencies, including the Ministry of Finance and Economy, the Justice Ministry, the Financial Supervisory Commission, the Bank of Korea, and the Korea Customs Service.

In a move designed to broaden its anti-money laundering regime the government has also criminalized the laundering of the proceeds from 36 additional offenses, including economic crimes, bribery, organized crime, and illegal capital flight. The Proceeds of Crime Act (PCA) passed in September 2001. The PCA provides for penalties of 3 years imprisonment and/or a fine of up to 20 million won (approximately \$16,000), for anyone receiving criminal funds. Disguising or disposing of criminal funds is punishable by up to five years imprisonment and up to 30 million won. The newly enacted legislation also provides for confiscation and forfeiture of illegal proceeds. The Anti-Public Corruption Forfeiture Act of 1994 already provided for the forfeiture of the proceeds of assets derived from corruption.

The Republic of Korea is a party to the 1988 UN Drug Convention and in December 2000 signed the United Nations Convention against Transnational Organized Crime. The Republic of Korea is a member of the Asia/Pacific Group on Money Laundering. In 1998, the United States and the Republic of Korea signed an extradition treaty, which entered into force in December 1999. The United States and the Republic of Korea cooperate in judicial matters under a 1993 Mutual Legal Assistance Treaty, which entered into force in 1997.

The passage of these new measures provides the Republic of Korea important legal tools to combat money laundering. The Republic of Korea should move forward to implement these measures and fully staff the FIU in order to fully cooperate internationally and better protect its financial sector from money laundering and other crimes.

**Kuwait.** Kuwait is not a major regional banking sector; it has six commercial banks, two specialized banks, one Islamic bank, and a branch of a Bahrain-based bank. Kuwait does not have anti-money laundering legislation. Kuwait's central bank in June 1997 ordered domestic banks to take measures to prevent money laundering such as checking clients' identities and the nature of their business. Banks also are to inform the central bank of all cash deposits that exceed the equivalent of U.S. \$33,000, and funds transfers that are "irregular."

In 1999, the Government of Kuwait (GOK) proposed anti-money laundering legislation, which the Finance and Economic Committee of the National Assembly passed in November 2001. The National Assembly had still not approved the legislation by the year's end. The legislation would criminalize money laundering, require financial institutions to keep records of transactions for at least 5 years, establish suspicious activity reporting requirements, establish a declaration requirement for bringing currency and precious items into the country, and allow for the freezing of assets in money laundering cases. Under the legislation, penalties for money laundering would generally be up to seven years imprisonment and a fine,

although the penalties could be doubled under certain circumstances. Assets would be subject to forfeiture upon conviction of a money laundering offense.

The Gulf Cooperation Council represents Kuwait before the Financial Action Task Force (FATF). Kuwait is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Kyrgyzstan.** Kyrgyzstan (the Kyrgyz Republic) is not a regional financial center but is vulnerable to money laundering, as money laundering is not a crime in Kyrgyzstan. The central bank has provisions that require customer identification procedures and make an exception to bank secrecy rules for suspicious transaction reporting, but these provisions are believed to be generally ignored by the commercial banks. Oversight of the banking sector remains weak and Kyrgyzstan's law enforcement agencies do not have the resources to conduct effective financial investigations.

The major sources of illegal proceeds include narcotics-trafficking, smuggling of consumer goods, official corruption, and tax evasion.

Kyrgyzstan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Laos.** Laos is not a regional financial center and has no anti-money laundering legislation. To support effective anti-money laundering laws, Laos must first develop an underlying body of banking law and regulation, most of which currently does not exist. The country does have strict laws on the export of its currency, the Lao kip. The proceeds of drug trafficking most likely are sent to other countries in the region through alternative remittance systems.

Late in 2001 the Government of Laos (GOL) agreed to freeze terrorist financial assets and to establish a financial intelligence unit to search for terrorist transactions. These developments may help to speed up the government's slow progress on the related issue of money laundering legislation and regulations.

The GOL is a party to the 1971 UN Convention on Psychotropic Substances and has stated its goal to become a party to the 1988 UN Drug Convention. The GOL is working with the United Nations Office for Drug Control and Crime Prevention and other foreign consultants to develop the fundamental regulatory framework that would be necessary for Laos to be in a position to comply with the 1988 Convention. In the interim, the GOL sends its officials to relevant Association of Southeast Asian Nations (ASEAN) conferences on regional anti-money laundering practices.

**Latvia.** Money laundering continues to be a major concern in Latvia in spite of compliance with legislative norms. The Council of Europe annual report for 2000 connects money laundering with counterfeiting, corruption, white-collar crime, extortion, financial-banking crimes, stolen cars, and prostitution. An estimated two-thirds of crime is connected with Organized Crime. Although Latvia has a mainly cash economy, there are opportunities for money laundering at 228 currency changing points and 21 casinos. The banking sector consists of 22 commercial banks. Non-residents hold two-thirds of total share capital in the banking sector.

Money laundering was criminalized for all serious crimes in 1998. There are requirements for customer identification, the maintenance of records on all transactions, and the reporting of large cash transactions (40,000 lats or approximately U.S. \$64,600), and suspicious transactions to the Office for the Prevention of the Laundering of Proceeds Derived from Criminal Activity (Control Service), which is Latvia's financial intelligence unit (FIU). The Control Service, which employs 13 persons, was established under the oversight of the Prosecutor's Office. In addition to its existing software, the Control Service has created new software that collates the data from the internal database that contains information on customers who have conducted unusual or suspicious transactions.

The number of suspicious disclosures reported to the Control Service continues to increase.

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In June 2001 a special unit for the investigation of money laundering was established in the Board of the Financial Police of the State Revenue Service. There has been no money laundering convictions and no forfeitures of illicit proceeds.

On November 7, 2000, the President of Latvia promulgated a law for a public regulator, the Finance and Capital Market Commission. Previously, the Central Bank regulated banks, with separate regulators for the Securities & Exchange Commission and insurance companies. The new law established one united regulator to assume supervisory authority over all three sectors, which will bring Latvia in line with the British/Swedish model. This change took effect in July 2001.

Latvia is also addressing the issue of offshore investments. While only 370 companies have offshore investments (out of 160,000 registered enterprises in Latvia), of the \$1.23 billion invested in its base capital by foreign investors, almost one-seventh is invested by offshore companies. The largest offshore investors come from Hong Kong, the Isle of Man, and Jersey. The largest number of joint ventures with offshore capital comes from the U.S. Virgin Islands, the Bahamas, Cyprus, and Liechtenstein. Moreover, information on offshore company owners has been confidential.

Proposed legislation has been drafted to create a new register of proxies to get more information on offshore activities in Latvia. A new commercial law already adopted in November 2000 and becomes effective January 1, 2002 also requests more information on the branches of offshore companies in Latvia. The law also requires that at least half the board members of such companies must be permanent residents of Latvia, parent companies must submit their annual reports to a new commercial register, and changes in the parent companies' authorized personnel in Latvia must likewise be reported to check suspicious transactions.

In 2000 a World Bank report rated all Eastern European countries for corruption. Latvia was rated positively in terms of administrative corruption, but negatively regarding state capture (because of conflict of interest of high level officials). The European Union 2001 Report on Latvia's Progress Towards Accession characterized the perceived level of corruption as relatively high. Latvia is establishing an independent anti-corruption unit to deal with corruption among high-level officials. They are working with Organization of Economic Cooperation and Development (OECD) on a joint anti-bribery convention. In September 2001, Latvia and the U.S. signed a protocol of understanding for the U.S. to give financial assistance to the opening of a Corruption Prevention Office in Latvia and to facilitate criminal proceedings reform.

Interagency cooperation between Latvian law enforcement agencies tends to be best at the highest governmental levels, but weaker at the working level due to lack of financial, material, and human resources. Consequently, there are problems in obtaining and approving evidence. The investigative process needs streamlining. In response to that problem, Viesturs Burkans, head of the Control Service, announced to the press that plans have been proposed by the Prosecutor General's Office and the Control Service to create two teams of five experts to work only on money laundering investigations. One will be formed at the Financial Police, the other at the Economic Police. The National Security Council also supported the proposal. The special investigation teams should be put in place by 2003.

Latvia participates in the Council of Europe's PC-R-EV, and as a member underwent a mutual evaluation in March 2000 resulting in many of the aforementioned changes. Latvia ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of proceeds from Crime in 1998, and the Council of Europe Criminal Law Convention on Corruption in December 2000. A Mutual Legal Assistance Treaty has been in force between the U.S. and Latvia since 1999. Latvia is a party to the UN Drug Convention and in December 2000 signed the United Nations Convention against Transnational Organized Crime. The Control Service is a member of the Egmont Group. The Control Service has a memorandum of understanding on information exchange with Bulgaria.

The Government of Latvia should continue to research ways to improve cooperation between Latvian law enforcement agencies at the working level and to increase the resources available to those agencies. The

newly established regulator Finance and Capital Market Commission should bring improvements in the audit system as well as regular inspections to check suspicious transactions.

The key to Latvia's success in combating money laundering will be based on the swiftness and forcefulness with which it continues to strengthen and implement its anti-money laundering program.

**Lebanon.** Lebanon's historical commitment to bank secrecy, 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, all combine to increase the possibilities for laundering dirty money. Sources of laundered funds include narcotics, counterfeiting, smuggling, and evasion of international sanctions. Lebanon still has not prosecuted any cases of money laundering.

Citing the lack of a legal anti-money laundering framework the Financial Action Task Force (FATF), in June 2000 identified Lebanon as non-cooperative in international efforts to combat money laundering. Among the factors upon which FATF based its determination were Lebanon's strict banking secrecy regime, its lack of a financial intelligence unit (FIU), and the fact that, although banks were permitted to terminate account relationships in light of doubts about the true identities of account holders, they were not required to report such account terminations. In July 2000, the U.S. Treasury issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to any transaction originating in or routed to or through Lebanon.

Over the past year Lebanon has enacted policies and requirements designed to address a number of the deficiencies causing international concern. In April 2001, Lebanon adopted Law No. 318 creating a framework for the lifting of bank secrecy, broadening the criminalization of money laundering beyond drugs, mandating suspicious transaction reporting, requiring financial institutions to obtain customer identification information, and facilitating access to banking information and records by judicial authorities. The provisions of Law No. 318 apply to Lebanese financial institutions subject to the provisions of the Banking Secrecy Law of September 3, 1956, as well as to those that are not, including institutions such as exchange offices, financial intermediation companies, leasing companies, mutual funds, insurance companies, companies promoting, building, and selling, real estate, and dealers in high-value commodities.

Law No. 318 also established the "Special Investigation Commission," an independent entity with judicial status to investigate money laundering operations, and to monitor compliance of banks and other financial institutions with the provisions of Law No. 318, including requirements relating to customer identification and due diligence. The commission's Audit and Investigation Unit is responsible for receiving and investigating reports of suspicious transactions. The Special Investigation Commission is the only entity with the authority to lift bank secrecy for administrative and judicial agencies. Another section within the Special Investigation Commission is the Financial Investigation Administrative Unit, (FIAU), which functions as Lebanon's Financial Intelligence Unit and is the entity for collecting, monitoring, and exchanging information with foreign counterparts.

In accordance with Article 5 of Law No. 318, the Banque du Liban, published Decision No. 7818 on May 16, 2001, which further delineates the requirements of Law No. 318. Decision No. 7818 requires financial institutions to identify all clients including transient clients, maintain records of customer identification information, request information about the beneficial owner of accounts, report suspicious transactions, conduct internal audits, and exercise due diligence in conducting transactions for clients.

In June 2001, FATF determined that, although Lebanon had taken steps to remedy deficiencies in its anti-money laundering regime, Lebanon had made insufficient progress to warrant removing it from FATF's list of non-cooperative countries in the international fight against money laundering.

In 2000, Lebanese authorities repealed a law authorizing offshore banking, and in 2001, Lebanon terminated its membership in the Offshore Group of Banking Supervisors. Lebanon has endorsed the Basel Core Principles and is in the process of implementing them. Lebanon is party to the 1988 UN Drug Convention (although it has taken reservations to several sections of the Convention relating to bank



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secrecy) and in December 2001 it signed the UN Convention against Transnational Organized Crime. Lebanon and the United States do not have a Mutual Legal Assistance Treaty.

Lebanon has addressed a number of serious deficiencies in its legal, supervisory, and regulatory anti-money laundering system. The Government should implement and enforce the newly adopted Law No. 318 aggressively and effectively, thereby strengthening its ability to combat money laundering domestically and internationally.

**Lesotho.** Lesotho does not have a significant money laundering problem. There is currently no legislation criminalizing money laundering. However, in 2001 the Government of Lesotho drafted a money laundering statute based on the South African Development Community model, and has indicated its intention to introduce the bill in Parliament in 2002.

Lesotho requires banks to know the identity of their customers and to report suspicious transactions to the central bank. The government also requires banks to report all transactions exceeding 100,000 maloti (approximately U.S. \$9,000) to the central bank.

Lesotho is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

**Liberia.** Liberia is a concern because it is a major transshipment point for illegal diamond smuggling. Liberia is a major diamond producing country that has attracted international attention because of its ineffectiveness in regulating the diamond industry. Money laundering and terrorist financing using diamonds and other precious metals are concerns. Many of these diamonds and precious metals originate in Liberia, Guinea, and Sierra Leone. Subsequent to the May 7, 2001 UN ban on the export of “rough diamonds” from Liberia, local miners continue to produce rough stones. The Liberian Government claims it has not discouraged local diggers for fear that hundreds or thousands of unemployed miners would converge on the capital. The UN sanctions allegedly have caused a 40 percent drop in the price of stones on the local market. As a result, and given the proximity of Liberia’s principal alluvial deposits to the border with Sierra Leone, local diggers are transacting their stones in Sierra Leone where they fetch a better return. A typical money laundering scheme might include a businessman entering Liberia with a large amount of cash. The investor might purchase raw diamonds from unstaked or illicit miners in exchange for cash. These diamonds are then passed through customs and then shipped abroad to international markets in Tel Aviv, Israel, Antwerp, Belgium, and Bombay, India for cutting, polishing, and selling.

In December 2001, the Liberian Ministry of Justice was pursuing diamond smuggling charges against two senior officials for their role in an apparent scheme to sell rough diamonds to a visiting Japanese national. The Liberian Government has developed a prototype certificate of origin based on the Kimberley process and hopes to attain UN approval for this document. It also wants technical assistance in developing a tracking and monitoring system for future shipments with the proposed certificate.

Liberia’s offshore activity is concentrated in the ship registry business. Offshore companies are permitted to issue bearer shares. Liberia reportedly has 16 banks, but only a small number are open to the public.

In November 2000, Liberia was one of 14 West African countries that created the Intergovernmental Group of Action against Money Laundering (GIABA), a regional FATF-style body that is not currently functional. A representative from the Ministry of Finance attended the 2001 Regional Workshop on Money Laundering and Other Financial Crimes hosted by the West African Institute for Financial and Economic Management.

In 2001 Liberia enacted new anti-money laundering legislation. Under the new regulations, monies that are carried out of the country over the sum of 7,000 dollars must be in the form of travelers’ checks, money orders, or bank drafts. When entering the country, amounts of money that exceed 10,000 dollars must be declared to the Central Bank of Liberia.

Liberia is not a party to the 1988 UN Drug Convention.

**Liechtenstein.** The Principality of Liechtenstein (Liechtenstein) has a well-developed offshore financial services sector, relatively low tax rates, loose incorporation and corporate governance rules, and a tradition of strict bank secrecy, which have contributed significantly to the ability of financial intermediaries in Liechtenstein to attract funds from abroad. These same factors have made the country attractive to money launderers.

Liechtenstein's financial services sector includes 17 banks, 3 non-bank financial companies, and 16 public investment companies, as well as insurance and reinsurance companies. Its 230 licensed fiduciary companies and 60 lawyers serve as nominees for, or manage, more than 75,000 entities (primarily corporations, anstalts, or trusts) available primarily to nonresidents of Liechtenstein. Approximately one-third of these entities hold the controlling interest in other entities, chartered in countries other than Liechtenstein. Laws permit corporations to issue bearer shares.

The Financial Supervision Authority (FSA) is responsible for supervising all banks and fiduciaries licensed to operate in Liechtenstein. The FSA has the authority to conduct on-site spot checks and request information as required. Reliance previously was placed on a financial institution or intermediary's approved external auditors for regular compliance examinations and for monitoring implementation of anti-money laundering controls.

Drug-related money laundering has been a criminal offense in Liechtenstein since 1993, but the first general anti-money laundering legislation was added to Liechtenstein's laws in 1996. Although the 1996 law applied some money laundering controls to financial institutions and intermediaries operating in Liechtenstein, the anti-money laundering regime embodied in the legal, supervisory, and regulatory system of Liechtenstein at that time suffered from serious systemic problems and deficiencies.

In June 2000, the Financial Action Task Force (FATF) identified Liechtenstein as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns: inadequate customer identification rules; a limited and inadequate suspicious transaction reporting system; the absence of a financial intelligence unit (FIU); inadequate and ineffective laws and procedures governing international cooperation and the exchange of information to assist in criminal investigations by officials of other countries; and an inadequate dedication of resources overall to anti-money laundering programs.

In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through Liechtenstein, or transactions involving entities organized or domiciled, or persons maintaining accounts, in Liechtenstein.

After the FATF issued its report, the Government of Liechtenstein (GOL) committed to take legislative and administrative steps to improve its anti-money laundering regime. Specifically, the GOL amended its Due Diligence Act to incorporate "know your customer" principles that require banks and all other financial intermediaries to identify their clients and the beneficial owners of accounts. The GOL revised relevant portions of its criminal code to add a wide range of predicate crimes to the definition of money laundering and expanded money laundering offenses in non-narcotics offenses to cover "own funds". The new laws also address the independence of accountants reporting to the FSA on anti-money laundering compliance.

The GOL also reformed its system of suspicious transaction reporting. Reporting is now permitted for a much broader range of offenses and may be made based on a suspicion rather than the previous standard of "a strong suspicion." Nonetheless, the new law continues to require that financial institutions undertake some "clarification" of transactions before making a report, and there is some concern that this may be inhibiting the level of reporting. This process could involve some risk of "tipping off," although in some cases it may be possible to clarify the nature of the transaction without going back to the client.

In the absence of a legislative mandate, a government ordinance of January 2001 established a FIU called the Einheit für Finanzinformationen (EFFI). The EFFI, which is external to and independent of the FSA, became operational on March 1, 2001. The EFFI works closely with the prosecutor's office and law

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enforcement authorities in the country, as well as with a new unit of the National Police that deals with economic and organized crime. The EFFI has six employees and seeks to hire more. The EFFI became a member of the Egmont Group of FIUs in June 2001. The FIU currently operates on the basis of an executive order, but Parliament is expected to pass a bill providing a statutory basis for the FIU's authority in 2002.

The EFFI has developed a system for suspicious transaction reporting (STR) analysis that involves internal analysis and consultation with police and a 10-day period to decide whether to pass the report to prosecutors for further action. EFFI has set up a database to analyze the STRs. Currently, banks, insurers, financial advisers, postal services, bureaux de change, attorneys, financial regulators, and casinos are required to file STRs.

The FATF recognized in June 2001 that Liechtenstein had remedied the serious deficiencies in its anti-money laundering regime and decided to remove Liechtenstein from the FATF list of non-cooperative countries. Similarly, the U.S. Treasury Department withdrew its advisory against Liechtenstein.

The reforms to Liechtenstein's anti-money laundering regime have had positive results. The relatively small number of STRs filed by financial institutions in Liechtenstein have generated several money laundering investigations. On July 19, 2001, the GOL formally charged two previously indicted managers of trusts with money laundering. Eugen Von Heeb and Rudolf Ritter are accused of laundering millions of dollars for the Colombian Cali Drug Cartel and related criminal organizations and of conspiring to receive and conceal drug trafficking money through Liechtenstein bank accounts. The prosecutors have been asked to gather more evidence before the cases go to court.

The GOL also has taken significant steps to improve its ability to cooperate internationally. The law on mutual legal assistance, which took effect on November 6, 2000, streamlines the procedure for dealing with foreign requests for legal assistance and reduces from 12 to 3 the number of permitted appeals from decisions by the Liechtenstein authorities. Liechtenstein has in place legislation to seize, freeze, and share forfeited assets with cooperating countries. Liechtenstein has issued implementing ordinances to enforce the United Nations Security Council Resolution (UNSCR) 1267 of 1999, which requires all states to freeze funds and other financial resources, including funds derived by an undertaking owned or controlled by the Taliban, and UNSCR 1333 of 2000, which requires all states to freeze funds and other financial assets of Osama Bin Laden and his associates in the Al-Qaeda organization. Liechtenstein issued ordinances that were amended in October and November 2001, to allow the GOL to freeze the accounts of individuals whose names have been published pursuant to these UNSCR resolutions. The GOL updates these ordinances regularly.

On November 7, 2001, law enforcement entities in Switzerland, Liechtenstein, and Italy conducted raids and seized documents relating to Al Taqwa and Nada Management, which are on President Bush's November 7, 2001 list of organizations accused of helping fund terrorism. Liechtenstein froze five Al Taqwa accounts. In connection with these raids, the GOL responded to a Mutual Legal Assistance request from Switzerland and opened a domestic investigation based on money laundering and organized crime.

Liechtenstein is a member of the Council of Europe Select Committee on Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), and has signed the 1990 Council of Europe Convention on Laundering, Search and Confiscation of Proceeds from Crime. On October 3, 2001, the GOL signed a UN Convention on the Suppression of the Financing of Terrorism. Liechtenstein has also signed the UN Convention against Transnational Organized Crime. Liechtenstein has endorsed the Basel Committee Core Principles for effective banking supervision. Liechtenstein and the United States have begun negotiation of a Mutual Legal Assistance Treaty (MLAT). The second round of MLAT negotiations between the U.S. and Liechtenstein took place February 4-6, 2002.

The GOL has made progress in strengthening its anti-money laundering regime and implementing recent reforms. It has increased the resources, both human and financial, devoted to fighting money laundering. The GOL has also improved its international cooperation provisions in both administrative and judicial

matters, and has committed that all financial institutions (banks and non-bank intermediaries) must have full identification of accounts' beneficial owners. By the end of 2001, the numerous Liechtenstein trustee firms had largely complied with the new requirements, having provided identification for 98 percent of all accounts. Liechtenstein is expected to continue these efforts by conducting a thorough analysis of the validity of due diligence reports, by analyzing suspicious transactions, and by vigorously prosecuting money laundering cases.

To remedy serious problems with the implementation of the laws a new unit (SSP) was established to supervise compliance with anti-money laundering regulations. Its chief reports directly to the Prime Minister. Coupled with new legislation which would freeze unidentified accounts on January 1, 2002, the trustees and other financial intermediaries identified and filed client profiles with banks for over 45,000 customers, or approximately 97.2 percent of the total unidentified accounts by December 31. Under the direction of the SSP audits were conducted of a number of trustees supervised under the Due Diligence Act. The deficiencies discovered during the audit are being reviewed. The trustees have not yet fully embraced a compliance culture. The FIU, which was established as an independent unit by executive order, joined the Egmont Group of FIUs. The FIU works effectively and closely with the SSP, the Office of the Prosecutor and the Police. Liechtenstein judges have worked hard to fully reduce the backlog of judicial assistance requests.

The GOL should continue to implement its evolving anti-money laundering regime. It also should insist that Trustees and other fiduciaries fully comply with all aspects of the new anti-money laundering legislation and attendant regulations.

**Lithuania.** Illegal activities such as smuggling, narcotics-trafficking, capital flight, profit concealment, and tax evasion make Lithuania vulnerable to money laundering. Russian organized crime groups reportedly have used financial institutions in the Baltics to launder money.

The criminal code created in 1997 was amended to criminalize the act of money laundering. In January 1998, the Law on the Prevention of Money Laundering (LPML), entered into force. The LPML made provisions for suspicious transaction reporting and the identification of customers whose transactions exceed litas (LTL) 50,000 (approximately U.S. \$12,500) or the equivalent in foreign currency. The LPML also made provisions for maintaining a register of customers who engage in transactions that exceed LTL 50,000 or the equivalent in foreign currency; and retain certain documents for a minimum of 10 years. Along with collection of reports, the LPML specifies information to be reported to the tax police. The Bank of Lithuania (BOL) issues currency transaction reporting requirements and regulations, and is required to share money laundering violation information with law enforcement and other state institutions upon request. Non-bank financial institutions operate under guidelines similar to banks. The BOL has the authority to examine the books, records, and other documents of all financial institutions.

The Money Laundering Prevention Division (MLPD) of the Tax Police is Lithuania's financial intelligence unit.

Lithuania is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Lithuania is also a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. There is a mutual legal assistance treaty (MLAT) between the United States and Lithuania, which entered into force in 1999. Lithuania is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), and the MLPD is a member of the Egmont Group.

**Luxembourg.** Luxembourg is a major world financial center, with more than 200 international financial institutions that benefit from the country's strict bank secrecy laws and operate an unrestricted range of services and activities. The size and sophistication of Luxembourg's financial center pose major risks for money laundering. Although Luxembourg bank secrecy rules may appear vulnerable to abuse by those transferring illegally obtained assets, under Luxembourg law the secrecy rules are waived in the prosecution of money laundering and other criminal cases.

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Two laws, the Law of 7 July 1989, updated in 1998, and the Law of 18 December 1993, criminalize the laundering of proceeds for all offenses. These anti-money laundering laws implement the customer identification, record keeping, and suspicious transaction reporting requirements mandated by the recent European Union anti-money laundering directive.

The Parquet de Luxembourg/Service Anti-Blanchiment, which reports to the Public Prosecutor, serves as Luxembourg's financial intelligence unit (FIU), receiving and analyzing suspicious transaction reports from the financial sector. The Commission de Surveillance du Secteur Financier (CSSF) create in 1999 is the supervisory body for the financial sector charged with implementing the country's anti-money laundering laws. There have been no arrests or prosecutions for money laundering since January 2001. The Luxembourg FIU is a member of the Egmont Group and has a memorandum of understanding (MOU) with Belgium, Monaco, Finland, and France. Similar MOUs with Switzerland, the Netherlands, and Ireland are under negotiation.

The GOL licenses offshore banks, non-bank financial institutions and international business companies (IBCs). As of December 2001, 187 banks were operating as "universal banks," with an unrestricted range of services. Foreign institutions seeking to become established in Luxembourg must demonstrate prior establishment in a foreign country, and meet stringent minimum capital requirements. Banks must undergo annual audits, (CSSF reg. No. 27) under the supervision of the Commission de Surveillance du Secteur Financier (CSSF), an independent government body that issues guidelines and enforces the requirements for operating in the financial sector. The identity of the beneficial owners of accounts is available to all entities involved in oversight functions, including registered independent auditors, in-house bank auditors, and the CSSF Registered auditors are subject to legal control requirements themselves, overseen by the CSSF. Within the Luxembourg financial marketplace, the auditors have established a "peer review" procedure that helps to assure the integrity of adherence to the controls.

In 2001, Luxembourg had 1,925 "undertakings for collective investment" (UCIs), or mutual fund companies, which included but were not limited to offshore investment funds, 118 insurance companies (est.), 264 reinsurance companies and several thousand IBCs. Companies must maintain a registered office in Luxembourg and a government registry publicly lists company directors. Bearer shares are permitted.

Luxembourg's role as a pan-European banking center has created an interest in e-banking. About a third of the banks in Luxembourg have Internet sites, although as of mid-2001 only about 15 of these permitted clients to carry out transactions online.

Luxembourg is a party to the 1988 UN Drug Convention, and in December 2000 Luxembourg signed the United Nations Convention against Transnational Organized Crime. Luxembourg is a member of the European Union, the Financial Action Task Force (FATF) and the Organization for Economic Cooperation and Development (OECD). Luxembourg and the United States exchanged instruments of ratification for a Mutual Legal Assistance Treaty (MLAT) on December 20, 2000. The MLAT entered into force in February 2001. In April 2001, Luxembourg and Monaco signed an agreement to fight money laundering that includes provisions for cooperation and information exchanges between the two states.

The GOL has enacted laws and adopted practices that help to prevent the abuse of its bank secrecy laws. The presence of bearer shares is an area of risk that should be addressed and the government should continue to strengthen enforcement to prevent international criminals from abusing Luxembourg's financial sector.

**Macau.** Under the one country-two systems principle that underlies Macau's 1999 reversion to the People's Republic of China, Macau has substantial autonomy in all areas except defense and foreign affairs. Macau's free port, lack of foreign exchange controls, significant gambling industry, and ongoing reorganization of its law enforcement agencies create an environment that can be exploited for money laundering. In addition, Macau is a gateway to China, and can be used as a transit point to remit funds and criminal proceeds to and from China, Hong Kong, and other Asian countries. Macau has a small economy and is not a financial center; however, significant amounts of criminal proceeds are laundered in Macau.

The gambling sector is a critical part of Macau's economy. It accounts for approximately 40 percent of GDP and direct taxes from gambling comprised 36 percent of government revenue in 2000. The Macau Special Region Administrative Region Government (MSARG) is planning to restructure the industry early in 2002 by ending the monopoly held by one company and expanding the number of licensed operators to three. Under the monopoly framework, organized crime groups were associated with the gambling industry through their control of VIP gaming rooms and activities such as racketeering, loan sharking, and prostitution. As a result, the gambling industry in particular provides an avenue for the laundering of illicit funds.

Macau's anti-money laundering legal framework is broadly in line with international anti-money laundering standards. The most important laws are: the Macau Financial System Act, approved by Decree Law Number 32/93/M on July 5, 1993; the Law on Organized Crime, approved by Decree Law Number 6/97/M on July 30, 1997; and Decree Law Number 24/98/M of June 1, 1998. The U.S. has no law enforcement cooperation agreements with Macau, though international cooperation is granted on the basis of international conventions in force in Macau. The Government of Macau (GOM) respond to U.S. requests for law enforcement assistance; however, Macau judges in two recent cases (in one with the concurrence of the Macau government) concluded that in the absence of a law enforcement cooperation agreement with the US, they did not have a legal basis to provide financial records requested by U.S. authorities. To facilitate its ability to provide increased law enforcement assistance to the United States, the GOM has prepared legislation to enable it to negotiate mutual legal assistance agreements.

The Financial System Act lays out regulations to prevent the use of the banking system for money laundering. It requires the mandatory identification and registration of financial institution shareholders, customer identification requirements, and external audits that include reviews of compliance with anti-money laundering statutes. These regulatory measures are applicable to credit institutions and financial companies headquartered in Macau and branches of credit institutions headquartered abroad. The Macau Monetary Authority has issued anti-money laundering guidelines to banks. Article 10 of the Law on Organized Crime 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. Legal entities may be civilly liable for money laundering offenses, and their employees may be criminally liable. The preventive measures in Decree Law Number 24/98/M set forth requirements for reporting suspicious transactions to the Judiciary Police and other appropriate supervisory authorities. These reporting requirements apply to all legal entities supervised by the MSARG regulatory agencies including pawnbrokers, antique dealers, art dealers, jewelers, and real estate agents.

Only a small number of suspicious transaction reports (STR) have been filed since the implementation of Decree 24/98/M. None has led to prosecution. Concern in the banking industry about possible retribution from criminal elements is one reason for the small number of STRs from this sector. The Inspectorate of Gaming has not played an active role in preventing money laundering in the casinos. The casinos have not filed any suspicious transaction reports. Activities and transactions that occur within quasi-private VIP rooms that cater to clients seeking anonymity within Macau's gambling establishments are especially removed from official scrutiny. Given the gambling industry's important economic role, there is concern in Macau about the economic effects of anti-money laundering efforts.

Despite having anti-money laundering laws, the MSARG in the past did not have an active enforcement effort in practice. However, over the past year, the MSARG has taken a series of important initial steps to create an effective anti-money laundering regime. It requested and provided full cooperation with an Offshore Group of Banking Supervisors (OGBS) and an Asia-Pacific Group (APG) review in April 2001 of its anti-money laundering regime. The MSARG is now taking steps to comply with the review's recommendations. These steps include: drawing up plans for establishment of a financial intelligence unit; drafting and sending out for comment revised anti-money laundering guidelines for banks; drafting and sending out for comment new anti-money laundering guidelines for money changers and remittance agents; and beginning an anti-money laundering public awareness campaign.

The MSARG joined the Asia/Pacific Group on Money Laundering (APG) as a full member in May 2001, and is also a member of the Offshore Group of Banking Supervisors. It has participated in anti-money laundering training programs offered by other countries and multilateral organizations. The MSARG is also drafting regulations specifically designed to prevent money laundering in the gambling industry as part of its restructuring of that sector. The People's Republic of China is a party to the 1988 UN Drug Convention, and through it the Convention is applicable to Macau.

It is too early to judge whether MSARG efforts to create an effective anti-money laundering regime will be successful. Further efforts are necessary, particularly ensuring that regulations, structures, training, and adequate resources are put in place to prevent money laundering in the gambling industry. The MSARG should also consider measures that provide for cross-border bulk currency and threshold reporting, ensure that anti-money laundering guidelines are provided to all business entities, including remittance agents, boost public awareness of the money laundering problem, and improve interagency coordination and cooperation on this issue.

**Macedonia, Former Yugoslav Republic of.** The Former Yugoslav Republic of Macedonia (FYROM) is not a regional financial center. The country's economy is heavily cash-based because of the population's distrust of the banking, financial, and tax systems. Money laundering in the FYROM most likely is connected to financial crimes such as tax evasion, financial and privatization fraud, bribery, and corruption rather than narcotics-trafficking.

Article 273 of the FYROM's criminal code, which came into force in 1996, appears to criminalize money laundering related to all crimes. The legislation specifically identifies narcotics and arms trafficking as predicate offenses, and contains an additional provision that covers funds that are acquired from other punishable actions. In November 2001, Parliament passed the Law on Money Laundering Prevention (LMLP), which explicitly defines money laundering for the first time in Macedonian legislation. The LMLP, which will come into effect in March 2002, requires financial institutions to identify clients that perform cash transactions exceeding 10,000 Euros, to prepare programs to protect themselves against money laundering, and to report suspicious transactions, although it does not provide criteria for determining that a transaction is suspicious.

Furthermore, the LMLP establishes the Directorate For Money Laundering Prevention within the Ministry of Finance. The Directorate will collect, process, analyze, and store data received from financial institutions and other government agencies. In November 2001, the Ministry of Finance announced the formation of the Financial Police, which will investigate suspicious transactions reported to the Directorate. The Financial Police, which will be regulated by a separate law, were not operational as of the end of 2001.

The FYROM is a member of the Council of Europe's (COE) Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), and in October 1999, underwent a mutual evaluation by the group. The FYROM is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Madagascar.** Madagascar is not a regional financial center. Reports indicate high activity of smuggling in animal products such as tortoise shells and reptile skins for sale in the international market. These schemes have in the past been related to money laundering activities within the country.

Article 102 of Madagascar's 1997 drug law criminalizes money laundering related to drug trafficking.

Madagascar is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Malawi.** Malawi is not a regional financial center. The Reserve Bank of Malawi, Malawi's central bank, supervises the country's seven licensed commercial banks (five of which are operational). In 1994, the Government of Malawi eliminated its foreign exchange controls.

Malawi has signed the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) Memorandum of Understanding. Malawi is a party to the 1988 UN Drug Convention and has signed, but not yet ratified the UN Convention against Transnational Organized Crime.

**Malaysia.** Malaysia is not a major regional financial center, although it does offer a wide range of financial services in its formal financial sector as well as through alternative money remittance systems that are potentially attractive to money launderers. The true extent of money laundering in Malaysia is not known, and to date there have been no effective prosecutions of money laundering activities.

The Government of Malaysia (GOM) passed important anti-money laundering legislation in May 2001. The act criminalizes money laundering and lifts bank secrecy provisions for criminal investigations involving a long list of approximately 150 predicate offenses. The law imposes obligations on financial institutions regarding customer identification, record keeping as well as suspicious transaction reporting by bank and non-bank financial institutions. Banks include commercial and merchant banks, Islamic banks and Labuan offshore banks. Non-Financial Banking Institutions (NBFIs) include finance companies, discount houses, money brokers, insurers, Takaful (i.e. Islamic insurance) companies, securities dealers, moneychangers and futures brokers. The new law, which came into effect in January 2002, also creates a financial intelligence unit (FIU) located in the central bank, Bank Negara Malaysia. The FIU, now operational, is tasked with receiving analyzing, and forwarding its findings to the appropriate legal and regulatory authorities for prosecution as required. Malaysia's long-standing National Coordination Committee to Counter Money Laundering (NCC) is composed of members from 13 government agencies. The NCC coordinates government-wide money laundering efforts and oversaw the drafting of the anti-money laundering law. The NCC is charged with overseeing the country's effort to combat money laundering.

The GOM has a well-developed regulatory framework, including licensing and background checks to oversee onshore financial institutions. In 1993, the Bank Negara Malaysia (BNM), the Malaysian central bank, issued "Guidelines on Money Laundering" and "Know Your Customer Policy" to educate financial institutions on money laundering issues in 1989. These guidelines were further revised in December 1993 in compliance with the Financial Action Task Force (FATF) 40 Recommendations through the requirement of customer identification and verification, financial record keeping and mandatory reporting of suspicious activity. The purpose of these guidelines was to require banking institutions to determine the true identities of customers opening accounts and to develop a "transaction profile" of each customer with the intent of identifying unusual or suspicious transactions.

In 1998, Malaysia imposed foreign exchange controls that restrict the flow of the local currency, the ringgit, from Malaysia. Some smugglers of currency have since been arrested. Under these exchange control laws, onshore banks must note cross-border transfers over 10,000 ringgit (approximately U.S. \$2,630).

The potential for money laundering activities at the offshore banking facility in Labuan is of concern, as there is no requirement for the beneficial owners of International Business Companies (IBCs) to be identified. The Labuan Offshore Financial Services Authority (LOFSA, often referred to simply as "Labuan") regulates the wide range of financial services, such as offshore banking and trust partnerships, provided by the offshore sector. Labuan hosts 54 offshore banks (46 foreign-owned), approximately 100 insurance companies, 4 mutual funds, 12 fund managers, and 18 active trust companies operating in Labuan. Because there is no requirement to register offshore trusts, their number is not known. Nominee trustees are permitted in Labuan, as are nominee directors of Labuan's approximately 2,300 IBCs incorporated or registered in Labuan. There is no requirement to disclose the beneficial owner of a corporation. There is, however, a government registry of corporate directors and shareholders, although this information is not available to the public. In April 2001, the Asia/Pacific Group (APG) and the Offshore Group of Banking Supervisors jointly gave a favorable evaluation of the Labuan offshore financial center. Malaysia has several pieces of legislation dealing specifically with Labuan.



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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. The GOM is drafting mutual legal assistance legislation that will make specific provision for the exchange of information with foreign governments.

Malaysia is a party to the 1988 UN Drug Convention. Malaysia has endorsed the Basel Committee "core principles" and is a member of the Offshore Group of Banking Supervisors and the Asia/Pacific Group. In May 2001, the Malaysian Government hosted the annual meeting of the APG in Kuala Lumpur.

The GOM should continue to improve the viability of its evolving anti-money laundering regime by amending its anti-money laundering legislation to include all serious crimes, including terrorist financing. The GOM should also require the identification of the beneficial owners of IBCs and the registration of trusts. With these changes and a fully-operational FIU, the GOM should consider joining the Egmont Group of FIUs through which it would be able to share critical information with other jurisdictions in the global fight against money laundering.

**Maldives.** The Maldives does not have legislation that specifically addresses money laundering, nor does it have procedures or policies such as a suspicious transaction reporting system that would detect money laundering. However, there is no significant financial activity in the Maldives.

Although some officials in the Government of the Maldives have wanted to establish an offshore financial center, the Maldives's antiquated banking laws and regulations, combined with currency controls, continue to hinder progress in this area.

The Maldives is a party to the 1988 UN Drug Convention.

**Mali.** Mali is not a regional financial center nor is money laundering considered to be a problem.

Mali was one of 14 West African countries in attendance of a meeting in November 2000 to establish the Intergovernmental Group of Action Against Money Laundering, a regional FATF-style body that is not currently functional. In December of 2001, Mali participated in a meeting for the West African Economic and Monetary Union and the Economic Community of West African States.

Mali is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Malta.** Malta does not appear to have a serious money laundering problem. The Maltese Financial Services Center (MFSC), the regulatory agency responsible for licensing new banks and financial institutions, monitors financial transactions going through Malta.

The Government of Malta (GOM) criminalized money laundering in 1994. Maltese law imposes a maximum fine of approximately U.S. \$2 million and/or 14 years in prison for those convicted. 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. These regulations impose requirements for customer identification, record keeping, the reporting of suspicious transactions, and the training of employees in anti-money laundering topics. In 1996, the Central Bank of Malta issued guidance notes to assist the banking sector in implementing the regulations. In accordance with the regulations, suspicious transaction reports are filed with the competent authority that supervises an institution (in the case of banks, the Central Bank of Malta), which then forwards them to the Economic Crimes Unit of the Maltese Police.

Bank secrecy laws are completely lifted by law in cases of money laundering (or other criminal) investigations. Bearer shares or anonymous accounts are no longer permitted in Malta.

In December 2001, Malta's parliament passed legislation establishing the Financial Intelligence Analysis Unit (FIAU). When the FIAU is fully established, its board will consist of members of the Central Bank of Malta, the Malta Financial Service Center, the Ministry of Finance, the police, Malta's custom and security service, and the Attorney General.

Malta is a member of the Offshore Group of Banking Supervisors but has publicly announced that offshore business will completely cease by 2004. No further offshore registration of banks or international business corporation (IBCs) has been possible since January 1997. The Financial Action Task Force (FATF), which reviewed Malta's financial regime via the FATF Non-cooperative Countries and Territories exercise in 2000 did not name Malta as non-cooperative jurisdiction but did urge Malta "to accelerate the phasing-out of the nominee company system." As a result, the number of IBCs has declined from 757 in 2000 to 417 IBCs in 2001, and the number of offshore banks has declined from 4 to 3.

Malta is also a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). Malta 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. Malta has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Marshall Islands.** The Republic of the Marshall Islands (RMI), a group of atolls located in the North Pacific Ocean, is a sovereign state in free association with the United States with a population of approximately 65,000.

In June 2000, the Financial Action Task Force (FATF) identified the Marshall Islands as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns. At that point, the RMI lacked a basic set of anti-money laundering regulations and laws, including the criminalization of money laundering, customer identification and a suspicious transaction reporting system. While the Marshall Islands financial sector was small, with only three onshore banks and no offshore banks, the jurisdiction had registered about 3,000 international business companies (IBCs). Relevant information about the IBCs was guarded by excessive secrecy provisions and was not accessible by financial institutions, international regulatory bodies or law enforcement agencies.

Subsequent to the FATF's naming of the RMI as a non-cooperative jurisdiction, in June 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating into or routed to or through the Republic of the Marshall Islands or involving entities organized or domiciled, or persons maintaining accounts in the Marshall Islands.

Since June 2000, the Marshall Islands has enacted significant legislative reforms to address most of the deficiencies identified by the FATF. The Marshall Islands passed the Banking (Amendment) Act of 2000 on October 31, 2000. This amendment to the 1987 Banking Act criminalizes money laundering, requires customer identification for accounts, and makes the reporting of suspicious transactions mandatory. The Marshall Islands also issued guidance to its financial institutions for the reporting of suspicious transactions. In addition, the Marshall Islands has drafted anti-money laundering regulations. These regulations have not yet come into force.

In November 2000, the GRMI approved the establishment of a financial intelligence unit that may exchange information with international law enforcement and regulatory agencies. The Financial Intelligence Unit was established under the auspices of the October 2001 Amendment to the Banking Act and the Cabinet Minute 236 (2000). The Marshall Islands is in the process of making this FIU fully operational.

Marshall Island non-resident corporations (NRCs), the equivalent of international business companies (IBCs), are of the greatest concern with respect to money laundering. By December 2000, there were reportedly 4000 NRCs registered, half of which are companies formed for registering ships. NRCs are allowed to offer bearer shares. Corporate officers, directors, and shareholders may be of any nationality and live anywhere. NRCs are not required to disclose the names of officers, directors and shareholders or beneficial owners and corporate entities may be listed as officers and shareholders. The authorities also do not actually possess the relevant information on non-resident companies. Although NRCs must maintain a registered office in the Marshall Islands, corporations can transfer domicile into and out of the Marshall Islands with relative ease. Marketers of offshore services via the Internet promote the Marshall Islands as

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a favored jurisdiction for establishing NRCs. NRCs are prohibited from engaging in financial activities defined in section two of the Banking (Amendment) Act 2000. In addition to NRCs, the Marshall Islands offers non-resident trusts, partnerships, unincorporated associations, and domestic and foreign limited liability companies. Offshore banks and insurance companies are not permitted in the Marshall Islands.

In June 2001, FATF determined that although the Republic of the Marshall Islands had taken steps to remedy deficiencies in its anti-money laundering regime, the RMI will need to take further steps to warrant removing it from FATF's list of non-cooperative countries.

The Marshall Islands will need to finalize and promulgate the necessary regulations in order to bring the legislation into full force and will need to ensure that the recently enacted reforms are fully and effectively implemented.

**Mauritius.** Mauritius is a developing regional financial center. Mauritius is also a major route for foreign investments that come into India. Money laundering activities in Mauritius take place through shell companies using the financial system to launder funds. There is also plausible evidence that foreign investors have used the financial system in Mauritius to funnel laundered monies through the Indian stock market.

In 2000, the Financial Action Task Force (FATF) conducted a review of Mauritius's anti-money laundering regime against 25 specified criteria. Mauritius was not identified by FATF as a noncooperative country in the international fight against money laundering. The FATF June 2000 report indicated that 'despite concerns identified regarding the identity of directors and beneficial owners of offshore trusts, Mauritius's Economic Crime and Anti-Money Laundering Act, passed on 13 June 2000, reinforced existing legislation in the prevention of and fight against money laundering. The Economic Crime and Anti-Money Laundering Law (ECAMLL) of 2000 requires financial institutions, cash dealers, and professionals to report suspicious transactions to the country's central bank, the Bank of Mauritius, which forwards the reports to the independent Economic Crimes Office (ECO). The ECO is responsible for investigating suspicious transactions reports (STRs) and prosecuting money laundering cases. Members of professions who deal with financial transactions, including notaries and lawyers, are required to file STRs directly with the ECO. In 2001, the ECO had initiated more than 20 investigations based on STRs. The ECAMLL also authorizes international cooperation in money laundering investigations, and requires financial institutions to maintain adequate records of financial transactions.

Mauritius has an active offshore financial sector. On May 15, 2001, the Financial Services Development Act was passed. This Act established the Financial Service Commission (FSC) that will perform all functions that were formerly carried out by the Mauritius Offshore Business Activities Authority. The FSC will also be responsible for licensing and regulation of non-banking financial services. All applications to form offshore companies must be reviewed by the FSC. Information on companies can also be requested from the FSC. Along with reviewing of applications, the FSC supervises activities of offshore companies.

Mauritius' Financial Intelligence Unit (FIU) has the responsibility of gathering information for money laundering cases. Along with the FIU is the ECO that has the responsibility of prosecuting criminals. The FIU is developing the capability to work with international FIUs for information sharing.

Mauritius became a party to the 1988 UN Drug Convention on March 6, 2001. Mauritius has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. Mauritius has signed the Memorandum of Understanding of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and is a member of the Offshore Group of Banking Supervisors.

**Mexico.** Mexican drug trafficking organizations continue to exploit Mexican banks and money exchange institutions by transferring illicit proceeds to financial systems worldwide. 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 through wire transfers, remain favored methods for laundering drug proceeds. Mexico's financial institutions engage in currency transactions involving international

narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States. Although drug trafficking continues to be the principal source of the laundered proceeds, other crimes including corruption, kidnapping, firearms trafficking, and immigrant trafficking are also major sources of illegal proceeds. President Fox continues to place strong emphasis at combating corruption throughout the government, which in the past has hindered anti-money laundering efforts and compromised criminal investigations and prosecutions.

Mexico's anti-money laundering system contains the essential elements to meet international standards such as those of the Financial Action Task Force (FATF) Forty Recommendations. Article 400 bis of the Federal Penal Code (in effect since 1996) extends the money laundering offense to all criminal activity and includes the proceeds of offenses committed in foreign jurisdictions. Penalties are increased by 50 percent when the crime involves a government official in charge of the prevention, investigation or prosecution of money laundering.

In January 2001, the Second Appellate court for Penal Matters in Mexico City ruled that prosecutors no longer must prove an underlying predicate offense, such as an actual narcotics sale, to bring a case against money launderers. Prior to this decision the courts required that prosecutors prove an underlying illicit activity and then a linkage with the actual funds in question.

Strict regulations have been implemented for banks and other financial institutions (mutual savings companies, insurance companies, financial advisers, currency exchange houses, stock market, money remittance companies, and credit institutions) to know and identify customers, and maintain records of transactions. They must report "relevant transactions (transactions over \$10,000), "transactions of concern" (transactions involving employees of financial institutions who engage in unusual activity); and unusual transactions to Hacienda's Attached General Directorate for Transactions Investigations (DGAIO), Mexico's financial intelligence unit (FIU). A Presidential Resolution of April 30, 2001 relocated the DGAIO from under the Office of the Federal Fiscal Prosecutor to the Under Secretariat of Incomes (comparable to the Internal Revenue Service). During 2001, the financial industry reported 2,877 suspicious transaction reports with an estimated value of \$27,315,070,912 pesos compared to 4,048 in 2000. Four of the reports were forwarded to the Office of the Attorney General for investigation.

The special prosecutorial unit established in 1998 within the Office of the Attorney General (PGR) is now a separate prosecutorial unit. The unit continues efforts at training its investigators and strengthening the money laundering cases presented to the judiciary. During 2001, the unit initiated 28 prosecutions that resulted in the arraignment of 31 individuals. However, there were no sentences handed down for money laundering convictions in 2001.

The Secretariat of Finance and Public Credit (Hacienda), the National Banking Commission (CNBV), and the PGR have made greater efforts at enforcing the measures available to them under the existing law and closed loopholes by expanding preventive measures. These included new regulations issued in December 2000 that extended reporting, record keeping, and customer identification requirements to non-bank financial institutions. These regulations entered into force February 1, 2001.

In January 2000, the U.S. Department of the Treasury and the Mexican Hacienda entered into a Memorandum of Understanding (MOU) for the exchange of information on the cross-border movement of currency and monetary instruments. The responsible authorities for the implementation of this MOU are the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) and the DGAIO. The two agencies are working jointly to implement the MOU. In December 2000, Mexico amended its Customs Law to reduce the threshold for reporting inbound cross border transportation of currency or monetary instruments from \$20,000 to \$10,000. At the same time, it established a requirement for the reporting of outbound cross-border transportation of currency or monetary instruments of \$10,000 or more. The Secretariat of Finance and Public Credit (Hacienda), reports 3,795 inbound cross-border transportation of currency or monetary instruments entries totaling \$2,448,718,318 pesos, and 195 outbound totaling \$589,127,152 pesos.

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During 2001, the Government of Mexico reported U.S. currency seizures valued at \$408,543,137 pesos. All of the seizures were on the US-Mexico border. During July and August 2001 at the Mexico City International Airport, Mexico and the U.S. identified 10 individuals suspected of suspicious financial activity. As a result, there was one arrest and one seizure.

Mexico is a full and active partner in the Money Laundering Group of the U.S./Mexico High-Level Contact Group. Mexico and the U.S. continue to implement their bilateral treaties and agreements for cooperation in law enforcement issues, including the Mutual Legal Assistance Treaty (MLAT), the Executive Agreement on Asset Sharing, and the Financial Information Exchange Agreement (FIEA). In a coordinated bilateral law enforcement effort, the 18 month long Operation Marquis, targeting a Nuevo Laredo-based poly-drug organization, resulted in 261 arrests in the U.S. and Mexico, and identified a network of money launderers in June 2001. The investigation continues in Mexico. Mexico has also entered into bilateral agreements with other countries that provide for international cooperation on money laundering matters.

In 2001, Mexico also established suspicious transaction reporting requirements to the smaller foreign exchange houses that process most of the remittances from Mexican workers in the U.S.

In October 2001, the U.S. Customs Service and Mexico City entrepreneurs inaugurated a Business Anti-Smuggling Coalition (BASC) that includes the establishment of a financial BASC chapter created to deter money laundering.

Since 1997 the CNBV has issued 120 sanctions against Mexican banks for not following proscribed reporting procedures. The CNBV assesses that a majority of the large value transaction reports submitted do not have the required signature of the conveyor of the money and nearly three-quarters have insufficient data about the client's economic activity. About 25 percent of the reports are incomplete with information on the depositor's location. These shortfalls will be addressed in 2002 as the Mexican Banking Association (ABM) works to improve reporting and will include joint measures for training with the major money exchange houses.

In June 2000, Mexico became a member of FATF, and joined the Caribbean FATF as a cooperating and supporting nation. Through membership and participation in the FATF, the Egmont Group of FIUs and the OAS/CICAD Experts Group to Control Money Laundering, Mexico continues to expand its presence at international anti-money laundering fora. Mexico is a party to the 1988 UN Drug Convention, and the December 2000 United Nations Convention against Transnational Organized Crime.

Through workshops with industry representatives, the Mexican Secretariat of Finance and Public Credit continues to assist the financial sector implement the regulation for transaction reporting. Mexico also continues to position itself to guard against electronic money laundering and the use of "smart cards" by examining domestic industry standards since these new technologies present a great challenge as Mexico integrates into a global economy.

Mexico has established a sound legislative basis for its anti-money laundering policies, and has demonstrated an international commitment to combat money laundering. Customer identification provisions still do not apply to third party beneficiaries, which affect high value transactions made by individuals on behalf of the principal account holders. Identifying the true owners of the bulk cash that transits the US-Mexican border must remain a priority item for both governments to stem transactions involving international narcotics-trafficking proceeds. Additional efforts also need to be directed towards developing cooperative relationships among law enforcement, financial regulators, and the financial sector to reduce vulnerabilities.

**Micronesia.** The Federated States of Micronesia (FSM) is a sovereign state in free association with the United States. It is not a regional financial center. There has been no known money laundering schemes related to narcotics proceeds. Financial crimes, such as bank fraud, do not appear to be increasing in frequency. Contraband smuggling, centered on alcohol and tobacco products may generate illicit proceeds.

There are four financial institutions in the country: Bank of Hawaii, Bank of Guam, Bank of the FSM, and the FSM Development Bank. Only the Bank of the FSM and the FSM Development Bank are local institutions. The Bank of the FSM is the only non-U.S. bank insured by the Federal Deposit Insurance Corporation (FDIC).

Legislation aimed at enhancing law enforcement cooperation in investigating serious crimes with the U.S. and other countries is pending before the FSM Congress. The legislation would set forth procedures for requesting assistance and responding to requests from other countries.

In 2000, Micronesia adopted legislation based on the Basel banking standards. Micronesia began drafting implementing regulations for the new law in 2001.

**Moldova.** Moldova is not considered an important regional financial center. Moldova's banking system is relatively new and is vulnerable to money laundering.

No specific tie between narcotics proceeds and money laundering activity is apparent. However, there are reports that Russian crime groups purchase businesses in Moldova through which to launder illegal proceeds. The passage in November 2001 of a landmark money laundering law, which criminalizes money laundering and requires banks to report suspicious transactions, was a major step in the development of the Moldovan legal and banking system. The government and banking system are now in the process of developing mechanisms that will permit the tracking and review of suspicious transactions.

Moldova is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Moldova is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), a FATF-style body.

**Monaco.** The Principality of Monaco is considered vulnerable to money laundering because of its strict bank secrecy laws and extensive network of casinos. Russian organized crime and the Italian Mafia reportedly have laundered money in Monaco.

There are approximately 70 banks and financial institutions in Monaco, with more than 300,000 accounts (with a population of about 5,000 Monagesque nationals and another 25,000 foreign residents). Approximately 85 percent of the banks' customers are non-resident.

Most of the banking sector is concentrated in portfolio management and private banking. The subsidiaries of foreign banks operating in Monaco can withhold customer information from the parent bank. Monaco also has an offshore sector, and permits the formation of both trusts and five different types of international business companies (IBCs): limited liability companies; branches of foreign parent companies; partnerships with limited liability; partnerships with unlimited liability; and sole proprietorships. However, ready-made "shelf companies" are not permitted. The incorporation process generally takes four to nine months. Monaco does not maintain a central registry of IBCs, and authorities have no legal basis for seeking information on the activities of offshore companies.

Money laundering in Monaco is a criminal offense. Banks, insurance companies, and stockbrokers are required to report suspicious transactions and to disclose the identities of those involved. (There is a report that suspicious activity reporting has been extended to many professions and business activities, including lawyers and estate agents.) Casino operators must alert the government of suspicious gambling payments possibly 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).

Monaco established its financial intelligence unit, the Service d'Information et de Controle sur les Services Financiers (SICCFIN), to collect information on suspected money launderers. In 2000, the Financial Action Task Force criticized the anti-money laundering regime of Monaco for the insufficient resources provided to SICCFIN. According to a press report of November 2001, the French Finance Ministry

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stated that SICCFIN had doubled the number of its staff, and that there had been a “noteworthy” increase in the number of suspicious activity reports being filed.

In April 2001, Monaco and Luxembourg signed an agreement to cooperate with one another in the fight against money laundering. The agreement includes provisions for information exchange between the two countries. Monaco has similar agreements with France, Spain, Belgium, Portugal the United Kingdom, and Switzerland.

Monaco is a party to the 1988 UN Drug Convention and in June 2001 submitted a notification indicating that it had ratified UN Convention against Transnational Organized Crime, which is not yet in force internationally. SICCFIN is a member of the Egmont Group of FIUs.

Monaco’s actions to increase the resources of SICCFIN should increase the efficacy of Monaco’s anti-money laundering regime, particularly in the area of cooperation with SICCFIN’s foreign counterparts. Monaco should establish a central registry for IBCs, and grant SICCFIN the authority to obtain information on the activities of offshore companies.

**Mongolia.** Mongolia is not a regional financial center. However, Mongolia’s vulnerability to transnational crimes such as money laundering most likely has grown with the country’s increased levels of international trade and tourism. Mongolia’s long, unprotected borders with Russia and China make it particularly vulnerable to smuggling and narcotics-trafficking. Illegal money transfers and public corruption are other sources of illicit funds in Mongolia. Mongolia does not have anti-money laundering legislation. Moreover, Mongolia’s ability to fight all forms of transnational crime is hampered by a weak legal system, and an inability to effectively patrol its borders, to detect illegal smuggling, and to conduct transnational criminal investigations.

Mongolia is not a party to the 1988 UN Drug Convention. However, in recent years the Government of Mongolia (GOM) has increased its participation in regional and international fora that focus on transnational criminal activities. For example, Mongolia is working with other countries in the region to join the Asia-Pacific Group on Money Laundering.

**Montserrat.** Montserrat is a Caribbean Overseas Territory of the United Kingdom. Volcanic activity between 1995 and 1998 reduced the population and business activity on the island, although an offshore financial services sector remains that may attract money launderers. As with the other British Caribbean Overseas Territories, Montserrat underwent an evaluation of its financial regulation in 2000, co-sponsored by the local and British governments.

Montserrat’s offshore sector consists of approximately 15 offshore banks and approximately 22 international business companies (IBCs). The Financial Services Centre (FSC) regulates offshore banks, whereas the Eastern Caribbean Central Bank supervises Montserrat’s three domestic banks. IBCs may be registered using bearer shares, providing for anonymity of corporate ownership.

The Proceeds of Crime Act (POCA) 1999 criminalized the laundering of proceeds from any indictable offense and mandated the reporting of suspicious transactions to a Reporting Authority. However, the Reporting Authority has not yet been established. Although the Act directs the Governor to issue a code of practice establishing further regulations for financial institutions, the code of practice has not yet been issued.

U.S. law enforcement cooperation with Montserrat is facilitated by a treaty with the UK that governs mutual legal assistance in criminal matters with several of the UK’s Caribbean overseas territories. Montserrat is a member of the Caribbean Financial Action Task Force (CFATF), and through the UK, is subject to the 1988 UN Drug Convention.

Montserrat should issue regulations to implement the POCA and establish the Reporting Authority to act as a financial intelligence unit. It should enact measures to identify and record the beneficial owners of IBCs. It should also increase resources to financial supervision, especially as it looks to expand its offshore sector, to help ensure that money launderers do not abuse Montserrat’s financial services.

**Morocco.** Morocco is not a regional financial center and the extent of money laundering in Morocco is not known. There have been reports of money laundering activities within the country related to intercontinental arms smuggling. Morocco remains an important producer and exporter of cannabis, which generates proceeds that may be laundered in Morocco and abroad. Moroccan government officials have indicated that they believe money is being laundered through bulk smuggling of cash and the purchase of smuggled goods. Banking officials have indicated that the country's system of unregulated money exchanges provides opportunities for launderers. Morocco has not criminalized money laundering.

The Moroccan banking system is modeled after the French system and consists of 16 banks, five government-owned specialized financial institutions, approximately 30 credit agencies, and 12 leasing companies. The monetary authorities in Morocco are the Ministry of Finance and the central bank, Bank Al Maghrib, which monitors and regulates the banking system. Bank Al Maghrib has decreed that all financial institutions must institute a customer identification policy and maintain certain transaction records for a certain (unspecified) period of time.

A mutual legal assistance treaty entered into force between the United States and Morocco in 1993. Morocco is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

Morocco should enact an anti-money laundering law and construct a viable anti-money laundering regime.

**Mozambique.** Mozambique is not a regional financial center. Money laundering in Mozambique is related to bank fraud and corruption. The extent of money laundering is most likely limited because of the country's small commercial banking sector. However, lax oversight and weak banking regulations, as demonstrated by recent bank scandals, suggest that Mozambique's financial institutions are vulnerable to money laundering. In particular, there is concern that the proceeds of arms trafficking, stolen vehicles sales, narcotics-trafficking, prostitution, and contraband smuggling may be laundered through Mozambique's financial institutions.

Mozambique's National Assembly passed a money laundering law in December 2001. The law extends the crime of money laundering predicate offenses beyond narcotics-trafficking to most other serious crimes. The law also required financial institutions to verify the identity of their customers, keep transaction records for at least 15 years, and report suspicious transactions. The law protects financial institution employees who cooperate with money laundering investigations and exempts such cooperation from bank and professional secrecy rules. Banker negligence provisions in the new law hold individual bankers responsible for money laundering. Bankers have the right to refuse service to anyone who refuses to identify the beneficiary of an account. Judicial authorities are given the right to request account information from financial institutions, and to gain access to computer records from banks, individuals, and companies that are suspicious. Judicial authorities also have the right to tap phone conversations as related to financial investigations. Tapping of telephone lines must go through the approved judicial process and be signed by a judge. Customs regulations require those entering or leaving the country with foreign currency or negotiable instruments in amounts greater than U.S. \$5,000 to file a report with customs. Taking local currency out of the country is prohibited.

Mozambique is a party to the 1988 UN Drug Convention, and has signed the Eastern and Southern Africa Anti-Money Laundering Group Memorandum of Understanding. It has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Namibia.** Namibia is neither a regional financial center nor a haven for money laundering activities. Namibia houses one government bank and six commercial banks. Of particular concern in Namibia is the smuggling of precious minerals and gems, the proceeds of which Namibian authorities think may then be laundered.

In August 2001, Namibia hosted the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Task Force and Ministerial Council Meeting of which Namibia is a member. Namibia was elected to serve as the Chair of ESAAMLG until the next August's Plenary to be held in Swaziland.



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Namibia does not have legislation that criminalizes money laundering activities. The Banking Institutions Act, No 2 of 1998 enforces the “know your customer rule.” However, Namibia is in the process of drafting anti-money laundering legislation and developing a viable anti-money laundering regime.

Namibia is not a party to the 1988 UN Drug Convention. Namibia has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Nauru.** Nauru is a small central Pacific Island nation with a population of approximately 10,600. It is an independent republic and an associate member of the British Commonwealth. The Republic of Nauru is an established “zero” tax haven, as it does not levy any income, corporate, capital gains, real estate, inheritance, estate, gift, sales, or stamp taxes. It is an offshore banking center with a number of weaknesses in its regulatory structures. The government-owned Bank of Nauru acts as the central bank for monetary policy but it has no regulatory function over offshore banks. Nauru’s legal, supervisory, and regulatory framework has provided significant opportunities over time for the laundering of the proceeds of crime. However, Nauru’s new anti-money laundering law is a first step to address these concerns.

In June 2000, the Financial Action Task Force (FATF) identified Nauru as non-cooperative in international efforts to fight money laundering. The FATF in its June 2000 report cited several concerns, including excessive bank secrecy provisions, a lack of basic anti-money laundering regulations, and Nauru’s failure to criminalize money laundering. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through Nauru, or involving entities organized or domiciled, or persons maintaining accounts in Nauru. In June 2001, FATF determined that Nauru had made insufficient progress towards remedying deficiencies in its anti-money laundering regime and warned that FATF would impose countermeasures by September 30, 2001 if Nauru failed to address such deficiencies.

In response to mounting international pressure, the Government of Nauru passed the Anti-Money Laundering Act (AMLA 2001) in August 2001. The AMLA 2001 requires financial institutions to maintain accounts in the name of the account holder, thus prohibiting anonymous accounts and accounts held in fictitious names. It also requires financial institutions to record and verify the identity of account holders, to report suspicious activity, and to develop internal anti-money laundering policies and procedures. Section 33 of AMLA 2001 protects financial institutions from liability for reporting suspicious activity. The AMLA 2001 allows for the establishment of a Financial Institutions Supervisory Authority (FISA), with the authority to supervise financial institutions’ compliance with the Act. The FISA will also be the recipient of reports of suspicious transactions filed by financial institutions. Finally, the AMLA 2001 provides for mutual assistance with respect to money laundering investigations. There were, however, limitations placed on compliance with foreign requests for assistance. Nauru may refuse to comply with a request if the action sought by the foreign authority is contrary to any provision of the Republic of Nauru Constitution, or would prejudice the national interest.

On September 7, 2001, FATF issued a press release recognizing the passage of the AMLA 2001. FATF, however, found the legislation to have several deficiencies, and urged Nauru to enact appropriate amendments by November 30, 2001 in order to avoid the application of countermeasures. On December 5, 2001, FATF called upon its members to impose countermeasures against Nauru because of Nauru’s failure to remedy deficiencies in its anti-money laundering regime. Countermeasures may include heightening requirements on financial institutions to identify their customers and expanding suspicious activity reporting, among other measures. On December 6, 2001, Nauru amended the AMLA 2001 to address certain deficiencies in the original act, including clarifying that the law applies to all financial institutions incorporated under the laws of Nauru (as opposed to just financial institutions conducting business within Nauru), and by broadening the definition of money laundering. Despite the passage of anti-money laundering legislation with amendments, there is a lack of a legal framework and effective regime for the regulation and supervision of offshore banks. Nauru has only recently begun to address international concerns about its anti-money laundering regime, and has expressed a willingness to cooperate with the international efforts to combat money laundering. The Government of Nauru has

cooperated with officials from the United States and other countries in certain criminal investigations involving Nauruan institutions. Nauru recently joined the United Nations. Nauru should immediately tackle the problem of its process of licensing, regulating, and supervising its offshore banking sector.

**Nepal.** Nepal is not a regional financial center. There are no indications that Nepal is used as an international money laundering center. The Government of Nepal (GON) has not criminalized money laundering, and legislative action on money laundering, mutual legal assistance, and witness protection remained stalled in 2001. The GON has explored the development of an offshore sector.

The GON exchanges information in connection with international narcotics investigations and proceedings. Regulations to ensure the availability of adequate records do not meet international standards.

Nepal is a party to the 1988 UN Drug Convention. Nepal is an observer jurisdiction to the Asia/Pacific Group on Money Laundering.

**The Netherlands.** The Netherlands is a major regional financial center and as such, is vulnerable to the laundering of funds generated from a variety of illicit activities, including narcotics-trafficking and financial fraud. Money laundering in the Netherlands is believed to occur through the banking system, bureaux de change, casinos, credit card companies, insurance and securities firms, stockbrokers and money transfer offices. Money laundering in the Netherlands is most likely controlled by major drug cartels and other international criminal organizations. According to the Office for the Disclosure of Unusual Transactions' (MOT) latest 2001 quarterly newsletter, the Netherlands' Internal Security Service has just begun to investigate terrorist-related money laundering and is looking into the possibility of cooperation with other law enforcement entities that are experienced in this area. Although terrorist-related money laundering is a crime in the Netherlands, in the past, previous investigations were focused mainly on drugs.

Money laundering relating to any crime has been an offense in the Netherlands since 1994, although prosecutors must first prove the predicate offense before prosecuting for money laundering. The Dutch parliament passed legislation in December 2001 that, upon enactment in early 2002, will make money laundering a separate offense and would ease somewhat the government's burden of proof regarding the criminal origins of proceeds; the government believes the prior standard is too high and can adversely affect money laundering prosecutions. Under the new bill, the government need only prove that the proceeds "apparently" originated from a crime.

All financial institutions in the Netherlands, from banks to bureaux de change to credit card companies, are required to report unusual transactions and cash transactions over 10,000 Euros, as well as any less substantial transaction that appears suspicious. The laws governing these disclosures, the Identification Act and the Disclosure Act, have been in place since 1994 and 1995. They are also required by law to maintain records necessary to construct financial transactions for at least five years and to respond quickly to government requests for information in narcotics-related cases. The requirements also have been applicable to the Netherlands Central Bank (inasmuch as it provides covered services) since 1998. There are no secrecy laws or fiscal regulations that prohibit Dutch banks from disclosing client and owner information to bank supervisors or law enforcement. The reporting requirements have since been expanded to include trust companies, including churches, foundations and charities, financing companies, and people dealing commercially in high-value goods.

The 1994 Identification Act also compelled banks to identify their clients, either at the time of the transaction or at some point prior to the transaction, before providing financial services.

Since 1996, entities providing commercial services, such as accountants, lawyers and notaries, have applied money laundering reporting procedures within their professions. The Office for the Disclosure of Unusual Transactions (MOT), which was established in 1994, is the Netherlands' financial intelligence unit (FIU). The MOT is currently negotiating with notaries to implement suspicious activity indicators for disclosure in connection with the activities of this professional group, in preparation to implement the

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Second European Union (EU) Directive on Money Laundering. The Money Transfer and Exchange Offices Act, which was submitted to Parliament in mid-2001, would require money transfer offices, in addition to exchange offices, to obtain a permit to operate and would subject them to supervision by the Dutch Central Bank.

The 1992 Asset Seizure and Confiscation Act, which went into effect in March 1993, allows the government to seize and confiscate the proceeds of all crimes, whether the proceeds themselves were illicitly obtained or were connected to other criminal acts, and to forfeit seized assets. The proceeds from such seizures and forfeitures are held in the general fund of the Ministry of Finance.

The MOT reviews and analyzes the unusual transactions and cash transactions filed by banks and financial institutions. It forwards suspicious transactions with preliminary investigative information to a unit of the Public Prosecutor's Office (BLOM). In 2000, the last year for which complete figures are available, the MOT recorded 47,780 unusual transactions into its database, of which it forwarded 11,023 to BLOM as suspicious. In 2001, a Dutch court ruled that unusual transactions related to tax fraud must also be reported to the MOT.

In order to facilitate the forwarding of suspicious transactions, the MOT and BLOM have created an electronic superhighway called Intranet Suspicious Transactions (IVT), and as of 1 July 2001, MOT had stopped its paper output and was reporting all suspicious transactions to BLOM via the IVT. A web site for the actual reporting of unusual transactions by financial institutions was developed, thus completing the superhighway.

The MOT is a member of the Egmont Group of FIUs and has information-sharing agreements with eight other countries. It is also involved in efforts to expand cooperation between disclosure offices, particularly within the EU. In June 2001, the MOT hosted and chaired the ninth annual plenary session of the Egmont Group.

In December 2000, the Netherlands signed the United Nations Convention against Transnational Organized Crime. The Netherlands is also a party to the 1988 UN Drug Convention and the 1990 Strasbourg Convention on Money Laundering and Confiscation. The Dutch participate in the Basel Committee, and have endorsed the Committee's September 1997 Core Principles for Effective Banking Supervision. The Netherlands is a member of the Financial Action Task Force (FATF) and participates in the Caribbean Financial Action Task Force (CFATF) as a Cooperating and Supporting Nation. (The Netherlands is extending measures to counter money laundering to Aruba and the Netherlands Antilles as well.) The Netherlands is also a member of the Dublin Group, and chairs its Central European Regional Group.

There is a Mutual Legal Assistance Treaty in effect between the Netherlands and the United States, which entered into force in 1983, as well as a forfeiture cooperation and asset sharing agreement that entered into force in 1994.

The Netherlands should continue to refine its anti-money laundering regime, particularly with respect to increasing its ability to prosecute money laundering and financial crimes.

**Netherlands Antilles, The.** The Netherlands Antilles forms part of the Kingdom of the Netherlands with full internal autonomy. The Netherlands Antilles is comprised of Curacao, Bonaire, and the Dutch part of Sint Maarten/St. Martin, Saba and Sint Eustatius. The Government of the Netherlands Antilles (GONA) is located in the capital of Curacao called Willemstad, which is also the financial center of the five islands. There is a lack of border control between Sint Maarten and St. Martin that creates opportunities for money launders. The Netherlands Antilles is also becoming increasingly vulnerable to money laundering because of its offshore sector and the presence of the gaming industry, including Internet gaming.

The Netherlands Antilles has a large number of offshore financial service providers, including 33 offshore banks, mutual funds, international finance companies, trust companies, and approximately 20,000 international business companies (IBC). IBCs may be registered using bearer shares. The law on bank

supervision states that offshore banks must have a physical presence on the island, hold their records there, and not give or receive payments in cash. The central bank supervises offshore banks, and some mutual funds are supervised by other entities. The central bank also indicates that banks on Curacao usually maintain copies of bearer share certificates for IBCs maintaining accounts, which include information on the beneficial owner. There is a proposal to require that the name of the ultimate beneficiary owner of the bearer share is recorded and accessible to law enforcement officials with a treaty-based request for the information.

In 2000, the Government expanded the anti-money laundering law to include suspicious activity reporting requirements for gem and real estate dealers. Also, senior government officials reached an agreement on the “underlying crime” portion of the money laundering law. As a result, prosecutors are no longer required to prove that a suspected money launderer also committed an underlying crime in order to obtain a money laundering conviction. It is now sufficient to establish that a money launderer knew, or should have known, of the money’s illegal origin. In 2000, the Association of Public Notaries introduced a list of indicators to use to report unusual transactions.

On August 3, 2001 a national ordinance modified existing legislation penalizing money laundering using currency and securities by including the use of valuable goods. Various decrees through the year refined indicators to be used by those subject to a reporting requirement, including a decree that indicators will remain valid for six months.

On August 1, 2000, the Netherlands Antilles Asset Seizure Law became effective. This law allows a public prosecutor to seize the proceeds of any crime once the crime is proven in a court of law. Unusual transactions by law are reported to the financial intelligence unit called the Netherlands Antilles Reporting Center, Meldpunt Ongebruikelijke Transacties (MOT NA). During 2001, the MOT NA had a fluctuating staff of two to four. The MOT NA received 7,700 unusual transaction reports, and despite the small staff the unit analyzed and passed 800 unusual transaction reports to authorities. The staff at the MOT NA continues to work diligently to enhance the effectiveness and efficiency of their reporting system. New software has been developed to enable institutions to send reports to the MOT NA electronically.

The MOT NA is a member of the Egmont Group. During 2001, the Central Committee of Parliament approved legislation providing for the exchange of information between the MOT NA and other financial intelligence units. The MOT NA currently has an information sharing agreement with the Netherlands and Aruba financial intelligence units. Currently before parliament is a draft from the MOT NA requesting separation powers from the government comparable to that of the central bank.

Recommendations for more specific indicators of suspicious activity for financial reporting and the proposal to bring credit card and currency transactions into the reporting system for unusual financial transactions were both approved in 2001. The central bank has completed the guidelines on detecting and deterring money laundering and issued them to the banking sector.

At the request of the Committee Against Money Laundering, the Gaming Control Board of Curacao extended the unusual transaction reporting requirement to casinos in Curacao in April 2001. The Netherlands Antilles has 25 casinos. Indicators for casino reporting are not identical to those that the financial and non-financial institutions are required to report; therefore, a new form has been created for casinos. The MOT NA will collect the unusual transaction reports from the casinos, and has drafted a manual for casinos on how to file reports. The MOT NA also plans to install software in the casinos that will allow the reports to be submitted electronically.

As part of the Kingdom of the Netherlands, the Netherlands Antilles participates in the Financial Action Task Force. It is a member of the Caribbean Financial Action Task Force. In 1999, the Netherlands extended application of the 1988 UN Drug Convention to the Netherlands Antilles. The Netherlands’s Mutual Legal Assistance Treaty with the United States applies to the Netherlands Antilles, though it is not applicable to requests for assistance relating to fiscal offenses addressed to the Netherlands Antilles.

During 2001, the Netherlands Antilles implemented most of its anti-money laundering legislation. The GONA has shown a commitment to combating money laundering by establishing a solid anti-money laundering program. However, the lack of funding provided to the MOT NA hinders the staff from receiving appropriate training to analyze and report unusual transactions. The GONA should increase the MOT NA staff and outsource training in order to maintain proficiency.

**New Zealand.** Evidence exists that money laundering takes place in New Zealand, although not to a significant extent. Narcotics proceeds and commercial crime are the primary sources of illicit funds. International organized criminal elements are also present in New Zealand.

A 1995 amendment to New Zealand's Crimes Act 1961 criminalized the laundering of proceeds knowingly derived from a serious offense. The amendment also contains a "safe harbor" provision and requires the reporting of large cross-border currency movements. The Financial Transaction Reporting Act 1996 contains obligations for a wide range of financial institutions, including banks, credit unions, casinos, real estate agents, lawyers, and accountants. These entities must identify clients, maintain records, and report suspicious transactions.

New Zealand is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. New Zealand is a member of the Financial Action Task Force (FATF), the Asia/Pacific Group on Money Laundering (APG), and the Pacific Islands Forum. Its financial intelligence unit is a member of the Egmont Group.

**Nicaragua.** While Nicaragua is not a regional financial center, Nicaragua's status as a drug transit zone and its highly vulnerable banking system make Nicaragua an attractive target for narcotics-related money laundering.

The Government of Nicaragua (GON) has pledged to fight terrorism, money laundering, and drug trafficking. However, resource constraints and corruption complicate efforts to counter these threats. Four of Nicaragua's eleven banks failed between August 2000 and August 2001 amid allegations of fraud and mismanagement. Nicaragua suffers generally from economic instability, weak regulation, and lax oversight of its financial system.

Nicaragua's Law 177 of 1994 criminalized money laundering related to drug trafficking. However, the GON has yet to prosecute a money laundering case. Law 285 of 1999 reformed Law 177 and requires banks to report cash deposits that exceed U.S. \$10,000 to the Bank Superintendency, which would forward these reports for analysis to the Commission of Financial Analysis (CFA) within the National Anti-Drug Council. However, this Commission is not yet functional. Once operational, the CFA would be responsible for detecting money laundering trends, coordinating with other investigative agencies, and reporting its findings to the National Anti-Drug Council. The CFA is designed to be composed of representatives from various elements of law enforcement and banking regulators.

Law 285 prohibits anonymous accounts and requires financial institutions to identify customers and maintain transaction records for five years. Law 285 also requires travelers entering the country to declare cash, monetary instruments, or precious metals exceeding U.S. \$10,000 or its foreign equivalent. Law 285's implementing measure, Decree 74, requires that financial institutions report all complex, unusual, and significant transactions, and transactions with no apparent legal purpose, to the Bank Superintendency and to the CFA.

Nicaragua is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Nicaragua is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Nicaragua has signed the Central American Treaty for the Prevention and Repression of Money and Asset Laundering Related to Illicit Activities Connected with Drug Trafficking and Related Crimes. Nicaragua was suspended from the Caribbean Financial Action Task Force (CFATF) because of a lack of participation with that organization since signing the CFATF MOU in 1996.

The GON should broaden its anti-money law to include all serious crimes. Furthermore, it should begin allocating resources and developing technical expertise for the establishment and operation of the Commission of Financial Analysis in order to strengthen its financial systems and ensure compliance with relevant anti-money laundering controls. The GON also should take a more active stance vis-à-vis the international community and participate in CFATF, which could provide useful support and anti-money laundering training.

**Niger.** Niger is not a money laundering center. While there are criminal activities that take place within the region, there is no evidence to suggest that money laundering activities take place on a large scale within Niger. Seven small commercial banks and one modest-sized local bank operate in Niger.

Currently there are talks of the creation of a regional currency to be used by Gambia, Ghana, Guinea, Nigeria, Sierra Leone, Niger, Liberia, Cape Verde, Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Senegal, and Togo. As of now Niger uses the CFA franc that is also used by Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Senegal, and Togo.

Niger is a party to the 1988 UN Drug Convention, and in August 2001 it signed the UN Convention against Transnational Organized Crime. Niger is a member of the West African Economic and Monetary Union (WAEMU).

**Nigeria.** The Federal Republic of Nigeria is Africa's largest fledging democracy. It is a hub of money laundering and criminal financial activity not only for the West African sub-region but also increasingly for the entire continent. Nigerian trafficking and money laundering organizations have proven adept at devising new ways of subverting law enforcement efforts, and evading detection. Their success in avoiding detection and prosecution has led to an increase in financial crimes of all types, including bank fraud, advance fee fraud, and money laundering. Despite the determined efforts of the new government to counter years of rampant corruption, crime continues to plague Nigerians.

Nigerian Advance Fee Fraud is one of the most lucrative financial crimes 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-Scams," (419 is the reference to fraud in Nigeria's criminal code). The gist of the scheme is to trick victims into parting with money by persuading them that they will receive a substantial benefit in return for providing a relatively modest payment of fee in advance. Businesses and individuals around the world have been and continue to be targeted with these "get rich quick" offers that have been known to involve violence. Substantial evidence exists that narcotics traffickers have utilized 419 Scams to fund their illicit smuggling efforts.

No significant changes have been made in anti-money laundering legislation since The Money Laundering Decree went into effect in 1995. The Decree criminalizes only drug-related money laundering. The National Drug Law Enforcement Agency (NDLEA) and the Money Laundering Surveillance Unit (MLSU) of the Central Bank of Nigeria are responsible for ensuring compliance with the provisions of the Decree and entrusted with the responsibility of receiving suspicious transactions. Cash payments that exceed N500, 000 (U.S. \$4,500) for an individual and N2 million (U.S. \$18,000) for corporate bodies are to be reported. The obligation to identify customers in exchange transactions arises only upon exceeding the threshold amount of U.S. \$100,000.

Implementation of the Money Laundering Decree has been hampered by the bifurcation of responsibilities between the MLSU and the NDLEA. The MLSU often provides assistance to the NDLEA in its investigations due to its familiarity with banking processes. However, the NDLEA, in the furtherance of its primary charter, requires the drug nexus as a precondition for the initiation of an investigation. NDLEA's attempts to prosecute narcotics and money laundering kingpins have been stymied by a dysfunctional judicial system and by government corruption. There has been no successful money laundering investigations and/or prosecutions in Nigeria.

The 1995 Money Laundering Decree also 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 convictions. Some properties remain in forfeiture and others have been conditionally returned to their owners of management. Enforcement of the legislation is inconsistent because the enforcement structures are slowed by corruption, bureaucracy, and lack of training in the preparation of money laundering cases.

The Corrupt Practices and other Related Offences Act was signed into law in June of 2000. The Independent Corrupt Practices Commission was established to enforce the newly enacted law and granted powers of investigation, arrest and prosecution. Individuals were arraigned in May 2001 as the Commission's first public trials began. Nigeria is a party to the 1988 UN Drug Convention and in June 2001 provided notification that it had ratified and the 2000 UN Convention against Transnational Crime, which is not yet in force internationally. The United States and Nigeria signed an MLAT in 1989, which was ratified by the United States in 2001, and is currently pending approval by the Nigerian Parliament.

In June 2001, the Financial Action Task Force (FATF) listed Nigeria as a non-cooperative jurisdiction in the international fight against money laundering. The FATF report noted that Nigeria did not cooperate with the review of its system, and so has a broad number of inconclusive criteria. The FATF report also noted that the Nigerian anti-money laundering system that was susceptible to review has a significant number of deficiencies. These deficiencies include but are not limited to a discretionary licensing procedure to operate a financial institution, the absence of customer identification under very high threshold (U.S. \$100,000) and the lack of the obligation to report all suspicious transactions if the financial institution decides to carry out the transaction. In addition, the scope of the application of the decree on money laundering is unclear, because it generally refers to financial institutions, and it does not seem to be applied to insurance companies and stock brokerage firms. The FATF report also noted that corruption in Nigeria continued to be of concern.

In October 2001, the Government of Nigeria drafted a revised anti-money laundering bill to create a Financial Crimes Commission and to criminalize all forms of money laundering, which is expected to be introduced in the National Assembly as early as the first half of 2002.

Nigeria must take steps to criminalize money laundering beyond narcotics. Nigeria should develop and fund a strong law enforcement mechanism to ensure compliance with anti-money laundering laws. Nigeria should also increase resources to fight corruption and advance fee frauds, both of which take advantage of Nigeria's lax law enforcement. Additionally, the government should establish a centralized unit to receive and analyze currency and suspicious transaction reports and work directly with its foreign counterparts in investigations and protect its financial system from mounting abuse by criminals and criminal organizations.

**Niue.** Niue is a small, self-governing island in the South Pacific Ocean that relies on New Zealand to manage its external affairs. Niue's economy is heavily dependent upon subsistence agriculture, the sale of postage stamps to foreign collectors, tourism and its financial services industry.

Niue's financial sector includes one domestic bank, one offshore bank, and approximately 6000 International Business Companies (IBCs) registered in Niue. Although IBCs are the most attractive feature of Niue's offshore sector, Niue also offers trusts, partnerships, financial management, and insurance services. Niue allows the creation of asset protection trusts that are impervious to many types of legal claims arising in other jurisdictions. In addition, trusts in Niue are exempt from taxation if the parties to the trust are not residents of Niue.

The Niuean government enacted a series of laws in 1994 aimed at establishing itself as an offshore financial center. The International Business Companies Act of 1994, as amended in 1996, is the legislative basis for establishing IBCs. Marketers of offshore services promote Niue as a favored jurisdiction for establishing IBCs for a variety of reasons. These IBCs operate under strict secrecy laws unless compelled by courts. 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. Internet marketers

offer shelf companies, complete with associate offshore bank accounts and mail drop forwarding services. These features make Niuean IBCs ideal mechanisms for money laundering schemes. IBCs are legally formed and registered by a Panamanian law firm on behalf of the government of Niue.

The Offshore Insurance Act of 1994 establishes a basic regulatory framework for offshore insurance entities. All offshore insurance companies must apply for and receive a valid license from the GON before conducting business. The application process gives the GON the opportunity to review the company's financial standing and its shareholders and management. All offshore insurance companies are subject to basic record keeping requirements and financial audits and must produce accounting records, share registers, transaction ledgers, and any other records upon request of an authorized inspector. The Offshore Insurance Act also imposes strict secrecy requirements relating to offshore insurance transactions that can only be lifted under certain circumstances specified in the law. Breaches of professional secrecy are punishable by up to two years in prison and/or a maximum fine of \$20,000.

The International Banking Act of 1997 (IBA) is a consolidation of legislation related to the licensing of international banks. There are three classes of banking licenses that can be issued in Niue: A, B, and C. The licenses primarily differ according to the amount of capital backing and the conditions placed on transacting business within Niue, with Class A banks having the highest capital backing and the fewest conditions on conducting business. The IBA imposes similar record keeping, auditing, inspection and secrecy requirements to the Offshore Insurance Act.

Niue's Proceeds of Crime Act of 1998 complements the laws regulating the financial sector. The Proceeds of Crime Act criminalized money laundering and made it punishable by a fine or 20 years imprisonment, or both. Under the Proceeds of Crime Act financial institutions may report suspicious transactions either to the police or to the Attorney General. However, there have been no such reports, and there are not relevant procedures in place to deal with their possible collection and analysis.

Despite the legislative framework, Niue continues to suffer from ineffective supervision of its financial sector. Niue provides no ongoing supervision of its licensed offshore bank. Financial institutions are not prohibited from issuing anonymous accounts. The government has delegated some of its financial supervisory and regulatory responsibilities over financial institutions to foreign private sector interests.

Niue's commitment to financial secrecy concerning banks and IBCs and the absence of effective Niuean supervisory or enforcement mechanisms aimed at preventing and detecting money laundering prompted the Financial Action Task Force (FATF) to identify Niue as non-cooperative in the international fight against money laundering in June 2000. The FATF in its report of June 2000 cited several concerns about Niue's anti-money laundering regime: inadequate customer identification requirements for banks, and ineffective regulatory regime to supervise IBCs. FATF also indicated that Niue's willingness to cooperate in money laundering investigations was untested. In July 2000, the U.S. Treasury Department, citing similar concerns, issued an advisory to U.S. financial institutions, warning them to "give enhanced scrutiny" to all financial transactions involving Niue.

Since June 2000, Niue has taken some steps to address deficiencies identified by the FATF. In July 2000, Niue suspended the registration of new offshore banks. It is unclear whether Niue has resumed registering new offshore banks. In November 2000, the government enacted the Financial Transactions Reporting Act (FTRA), which imposes reporting and record-keeping obligations upon banks, insurance companies, securities dealers and futures brokers, money services businesses and persons administering or managing funds on behalf of IBCs. The FTRA requires financial institutions to report suspicious transactions, verify the identity of its customers, and keep records of financial transactions for six years. However, the Act contains a number of loopholes that result in inadequate customer identification requirements, among other deficiencies. The FTRA also calls for the establishment of a financial intelligence unit (FIU) within the office of the Attorney General. To date, the FIU has not been established. Niuean officials have said that the establishment of the FIU will depend upon the outcome of ongoing discussions among the Pacific Islands Forum of a proposed regional FIU for Forum member countries. Niue supports the establishment of a regional FIU to share information among Pacific Island states.



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In June 2001, FATF acknowledged that Niue had made some progress towards addressing shortfalls in Niue's anti-money laundering regime but not enough to warrant de-listing Niue from FATF's list of nations that are non-cooperative in the global fight against money laundering.

Niue is trying to establish itself as a partner in the global fight against money laundering. In 1998, Niue passed the Mutual Assistance in Criminal Matters Act, which authorizes the Attorney General of Niue to provide certain types of legal assistance to other countries regarding criminal investigations. Niue has no bilateral cooperation agreements with other countries for the exchange of information on money laundering though the government has expressed a willingness to cooperate with international efforts to combat money laundering. Niue was admitted as a member of the Asia/Pacific Group on Money Laundering during the 4th Annual Meeting of this organization held in Kuala Lumpur in May 2001.

Implementation of Niue's anti-money laundering legislation and effective supervision of offshore financial sector are needed to protect Niue's financial services industry and economy from abuse by criminals and criminal organizations. Recent reforms address some of the deficiencies in Niue's anti-money laundering regime. Niue, however, still needs to finalize and promulgate the necessary regulations in order to bring the legislation into full force. Niue will need to ensure that the recently enacted reforms are fully and effectively implemented.

**Norway.** Norway is not an important regional financial center; there are 19 commercial banks in the country and approximately 125 savings banks. Money laundering in Norway is related mainly to funds generated by the smuggling of liquor and cigarettes. According to Oeokrim, which serves as Norway's financial intelligence unit, Norway has been experiencing an increase in financial crime such as bank fraud. These types of crimes overshadow narcotics-related money laundering in Norway.

Most money laundering in Norway takes place outside its financial system because financial institutions are obliged by law to report large and suspicious transactions to Oeokrim. The structuring of deposits appears to be a problem for financial institutions. Large cross-border cash transactions by banks are routinely reported to the central bank and kept on file.

All forms of money laundering are criminal offenses, according to the Norwegian Penal Code. Current money laundering statutes require financial institutions to verify the identity of their customers and to keep records of transactions for at least 5 years. Individual bankers may be held responsible if their institutions launder money. Norway's anti-money laundering legislation has been strengthened in recent years to conform to the FATF Forty Recommendations. Oeokrim receives suspicious transaction reports and is a member of the Egmont Group.

There were approximately 30 major arrests and/or prosecutions for money laundering in Norway in 2001. Law enforcement authorities have the authority to freeze and confiscate assets during money laundering investigations.

Norway is a member of the Financial Action Task Force (FATF). Norway is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Oman.** Oman does not have a significant money laundering problem. Its small banking sector is supervised by the Central Bank of Oman (CBO), which has the authority to suspend or reorganize a bank's operations. Oman has six commercial banks with 304 Omani branches and 10 foreign branches. There are also nine foreign incorporated banks with 27 branches in the country.

In 2001, Article 38 of the Law of Combating Drug and Psychotropic Substances, Royal Decree, criminalized money laundering. Currently, there is legislation pending that will further strengthen Oman's anti-money laundering regime.

The Royal Oman Police (ROP) is responsible for investigating money laundering activities. Banks are required to report all suspicious transactions to the ROP. Banks also are required to identify customers.

Oman is a party to the 1988 UN Drug Convention, and a member of the Gulf Cooperation Council (GCC), which is a member of the Financial Action Task Force (FATF). In June 2001, Oman underwent a FATF mutual evaluation.

**Pakistan.** The primary sources of illicit funds in the Islamic Republic of Pakistan are narcotics-trafficking, smuggling and corruption. Production of narcotics in Pakistan is negligible, but Pakistani narcotics-traffickers actively transship Afghan-produced narcotics to international markets. The proceeds from these activities are sometimes laundered abroad by means of the alternative remittance system called hawala, which is widely used by the population for mostly legitimate purposes.

The Control of Narcotics Substances Act of 1996 criminalized the laundering of narcotics related proceeds. The Act contains provisions for the freezing and forfeiture of assets associated with narcotics-trafficking and the reporting of financial transactions believed to be associated with narcotics-trafficking. The Ministry of Finance recently announced plans to introduce amendments to the Anti-Terrorism Act of 1997 that would declare the laundering of terrorist funds and fundraising by terrorists to be illegal.

Currently, Pakistan does not have a financial intelligence unit (FIU). Pakistan's National Accountability Bureau, Anti-Narcotics Force, and Customs all play major roles in anti-money laundering efforts.

Pakistan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Pakistan became a member of the Asia/Pacific Group on Money Laundering in 2000. In July 2001, Pakistani authorities met with a UN panel examining compliance with UN sanctions on the Taliban. The UN group discussed with these authorities Pakistan's efforts. The UN group examined measures imposed by the UN Security Council with regard to arms embargoes, financing of terrorism, counter-terrorism, drug trafficking, and money laundering.

Pakistan needs to enact legislation that criminalizes money laundering beyond drug proceeds. It also needs to issue financial regulations that mandate the reporting of all suspicious transactions, and to set up an FIU. In addition, in light of the role that hawala plays in money laundering in Southeast Asia, Pakistan should develop and enforce a system of countermeasures against hawala.

**Palau.** An archipelago in the Western Pacific with a population of about 18,000 and per capita GDP of about \$7,000, Palau is not a major financial center. Upon its independence in 1994, Palau entered the Compact of Free Association with the United States. The U.S. dollar is legal tender. Amid reports in late 1999 and early 2000 that offshore banks in Palau had carried out large-scale money laundering activities, a few international banks banned financial transactions with Palau. In response, Palau established a banking commission that recommended financial control legislation to the National Congress in 2001. Following that, Palau took several steps toward addressing financial security through banking regulation and supervision and putting in place a legal framework for an anti-money laundering regime. Several pieces of legislation were enacted in June 2001.

The Money Laundering and Proceeds of Crimes Act of 2001 criminalized money laundering and created a financial intelligence unit. This legislation imposes threshold and suspicious transactions reporting and record keeping requirements for five years from the date of the transaction. Credit and financial institutions are required to keep regular reports of all transactions made in cash or bearer securities in excess of U.S. \$10,000 or its equivalent in foreign cash or bearer securities. This threshold reporting also covers domestic or international transfers of funds of currency or securities involving a sum greater than U.S. \$10,000. All such transactions (domestic and/or international) are required to go through a credit or financial institution licensed under the laws of the Republic of Palau.

The Financial Institutions Act of 2001 established the Financial Institutions Commission, an independent regulatory agency, which is responsible for licensing, supervising and regulating financial institutions in Palau. Credit and financial institutions are required to verify customers' identity and address. In addition, these institutions are required to check for information by "any legal and reasonable means" to obtain the true identity of the principal/party upon whose behalf the customer is acting. If identification cannot, in fact, be obtained, all transactions must cease immediately.

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Palau has enacted several legislative mechanisms to foster international cooperation. The Mutual Assistance in Criminal Matters Act (MACA), passed in June 2001, enables authorities to cooperate with other jurisdictions in criminal enforcement actions related to money laundering and to share in seized assets. The Foreign Evidence Act of 2001 provides for the admissibility in civil and criminal proceedings of certain types of evidence obtained from a foreign State pursuant to a request by the Attorney General under the MACA.

Palau has taken several steps toward enacting a legal framework by which to combat money laundering. It has signed Pacific Island Forum anti-money laundering initiatives and has sought to abide by the Honiara Declaration, which calls for Forum countries to implement the Financial Action Task Force 40 Recommendations. Palau should continue with these efforts and begin a broad-based implementation of the legal reforms already put in place.

**Panama.** Despite significant amendments to Panama's anti-money laundering regime since October 2000, Panama's proximity to major drug-producing countries, its sophisticated international banking sector, U.S. dollar-based economy, and the Colon Free Zone's (CFZ) role as an originating or transshipment point for goods purchased with narcotics dollars through the Colombian Black Market Peso Exchange make the country vulnerable to money laundering. Panama's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States.

Panama's large offshore sector is comprised of international business companies (over 370,000 currently registered in Panama), offshore banks (approximately 34 banks), captive insurance companies (corporate entities created and controlled by a parent company, professional association, or group of businesses), and trusts. Captive insurance has become one of the most important sectors of Panama's offshore financial industry, following banking. Panama offers three types of banking licenses: a general license for local and foreign operations, an international license for offshore banking, and a representation license for establishing representative offices.

In June 2000, the Financial Action Task Force (FATF) identified Panama as non-cooperative in international efforts to fight money laundering. The FATF in its June 2000 report cited several concerns about Panama's anti-money laundering regime: (1) Panama had not criminalized money laundering for crimes other than drug trafficking; (2) Panama had an ineffective process for transmitting suspicious transaction reports to competent prosecuting authorities; (3) Panama's financial intelligence unit (FIU) was unable to exchange information with its foreign counterparts; and (4) and for maintaining certain outdated civil law provisions that precluded the identification of the beneficial owners of trusts and corporations. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions advising them to "give enhanced scrutiny" to financial transactions involving Panama, including transactions involving the CFZ.

These events prompted the Government of Panama (GOP) to engage in a coordinated effort to enact and implement laws, executive orders, and regulatory agreements with banks to bring Panama's anti-money laundering program into compliance with international standards. In October 2000, the GOP enacted two laws and issued two Executive decrees to address FATF's concerns about its anti-money laundering regime:

Law No. 41 (Article 389) of October 2, 2000 amends the Penal Code by expanding the number of predicate offenses for money laundering beyond drug trafficking to include criminal fraud, arms trafficking, trafficking in humans, kidnapping, extortion, embezzlement, corruption of public officials, terrorism, and international theft or trafficking of motor vehicles. Law No. 41 establishes a punishment of 5 to 12 years imprisonment and a fine.

Law No. 42 of October 2, 2000 requires financial institutions (banks, trust companies, money exchangers, credit unions, savings and loans associations, stock exchanges and brokerage firms, and investment administrators) to report to the Financial Analysis Unit (UAF)—Panama's financial intelligence unit—

currency transactions in excess of U.S. \$10,000 and suspicious financial transactions. Law 42 also mandates casinos, CFZ businesses, the national lottery, real estate agencies and developers, and insurance/reinsurance companies to report to the UAF currency or quasi-currency transactions that exceed U.S. \$10,000. Furthermore, Law 42 requires Panamanian trust companies to identify to the Superintendency of Banks the real and ultimate beneficial owners of trusts.

Executive Decree No. 163 of October 3, 2000, which amends the June 1995 decree that created the UAF, authorizes the UAF to share information with FIUs of other countries, subject to entering into a Memorandum of Understanding (MOU) or other information exchange agreement. The Panamanian UAF and the United States FIU, the Financial Crimes Enforcement Network (FinCEN), concluded an informal information sharing arrangement and have since shared information through letters of exchange on a case-by-case basis. The Panamanian UAF has signed MOU and sent them for signature to Spain, France, Croatia, Bulgaria, Colombia, Brazil, and El Salvador. MOUs with other Egmont Group countries are pending in those countries. Executive Order No. 163 also allows the UAF to provide information related to possible money laundering directly to the Office of the Attorney General for investigation. The UAF continues efforts to raise the level of compliance for reporting suspicious financial transactions particularly by non-bank financial institutions and businesses in the CFZ.

Executive Order 213 of October 3, 2000, amends Executive Order 16 of 1984 relative to trust operations, provides for the dissemination of information related to trusts to appropriate administrative and judicial authorities. Furthermore, in October 2000, Panama's Superintendency of Banks issued an Agreement No. 9-2000 that defines requirements that banks must follow for identification of customers, exercise of due diligence, and retention of bank records.

Although Panama has not yet successfully prosecuted a significant money laundering case, the UAF has begun transferring cases to the UIF for investigation. To increase GOP interagency coordination, the UAF and Panamanian Customs are developing an office at Tocumen International Airport to expedite the entry of customs currency declaration information into the UAF's database. This will enable the UAF to begin more timely investigations. In 2001, Panama's Customs initiated an aggressive anti-money laundering program at Tocumen International Airport to deter currency smuggling by seizing and forfeiting all undeclared funds in excess of \$10,000 from arriving passengers. In one 30-day period, Panamanian Customs officers at Tocumen International Airport seized over one million dollars in undeclared currency.

In light of these significant legislative and regulatory reforms and the GOP's efforts to implement these reforms, the FATF recognized in June 2001 that Panama had remedied the serious deficiencies in its anti-money laundering regime and removed Panama from FATF's list of non-cooperative countries. Similarly, the U.S. Treasury Department withdrew its advisory against Panama in June 2001.

Panama continues to participate in the multilateral Black Market Peso Exchange Group (BMPEG) Directive. Panama is a member of the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD), the Caribbean Financial Action Task Force (CFATF), and the Offshore Group of Banking Supervisors (OGBS). Panama is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. The UAF is a member of the Egmont Group and hosted the Egmont Group plenary in 2000. Panama also hosted the Fifth Hemispheric Congress on the Prevention of Money Laundering in August 2001. Panama and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995.

Panama should continue implementing the significant reforms it has undertaken to its anti-money laundering regime to help reduce the vulnerability of Panama's financial sector to financial crime, including money laundering.

**Papua New Guinea.** Papua New Guinea has no significant exposure to money laundering or other financial crime. Its banking sector is very small, and it has no offshore financial sector. However, there are no laws against money laundering.

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Papua New Guinea is not a party to the 1988 UN Drug Convention.

**Paraguay.** Paraguay is a principal money laundering center, and although accurate figures are unknown, the National Anti-Drug Secretariat (SENAD) suspects that narcotics-trafficking may generate about 40 percent of money laundering. The Secretaria de Prevencion de Lavado de Dinero o Bienes (SEPRELAD) was hampered by financial woes and the loss of key trained personnel in 2001, and continues to suffer from the burdensome bureaucratic structure that makes it extremely difficult for money laundering cases to be approved for prosecution by its governing council. In 2001, the Government of Paraguay (GOP) proposed legislative measures that would allow SEPRELAD's Financial Analysis Unit (FAU) to improve the flow of information to investigative authorities by allowing them to communicate directly with outside agencies.

The council approves an overwhelmingly small portion of the cases analyzed by the FAU. 14,500 suspicious financial transactions reported to SEPRELAD in 2001, and only 31 were referred for further investigation. Of six non-narcotics related cases passed to the Attorney General's Office for prosecution, only one was taken to trial and it was dismissed by the judge on procedural grounds. However, despite these difficulties, shortly after September 11 SEPRELAD compiled a dossier on 46 suspicious financial transactions by ethnic Arabs, as well as millions of dollars in wire transfers from Ciudad del Este to Lebanon, and submitted them immediately to the Attorney General's (AG) office for investigation. In early October 2001, two businessmen were arrested on suspicion of having terrorist links. Also in the wake of the September 11 attacks, and the call for a crackdown on illicit financial activities that may be fueling terrorist groups, the Central Bank established a complementary money laundering operation to SEPRELAD.

The U.S. has worked with SEPRELAD to augment the number of money laundering cases brought before the AG's office; is in communication with the AG's office for ways to increase the number of prosecutors assigned to narcotics and money laundering cases; and is working closely with the Central Bank's new money laundering unit.

Money laundering in Paraguay is facilitated by the multi-billion dollar contraband re-export trade centered in Ciudad del Este (CDE), the heart of Paraguay's informal economy. The area is suspected by government officials in Paraguay and the U.S. to be a source of terrorist financing. Paraguay has taken some measures to tackle this "grey" economy and to move to a more formal, diversified economy. Paraguay is looking to a "maquila" industry and tourism as alternatives for CDE and the entire Tri-border area. Paraguay continued to experience banking failures, including the closing of the National Worker's Bank (BNT). The most spectacular case involved \$16 million diverted from the Central Bank to private accounts linked to the President's family. The GOP is working with the U.S. Treasury and Justice Departments to trace and account for the missing funds.

Paraguay is an attractive offshore financial center for neighboring countries, particularly Brazil, because little is required to open a bank account or to make financial transactions. Paraguay does not license offshore banks and businesses. There are no international business trusts, insurance, mutual fund companies, casinos or Internet gaming sites. Foreign banks are registered in Paraguay and non-residents are allowed to hold bank accounts, but current regulations forbid banks from advertising or seeking deposits from outside the country. The Superintendent of Banks, who exercises his right to audit financial institutions, supervises all banks under the same rules and regulations. But there are few effective controls over businesses, and businesses can operate without paying taxes. The large informal economy is outside the government's regulatory scope.

Money laundering occurs in both the banking and non-banking financial system. Government officials backed the enactment of OAS/CICAD compatible law criminalizing money laundering linked to narcotics and organized crime. It is possible that Paraguay's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include U.S. currency.

Paraguay ratified a financial information exchange agreement with the U.S. in 1994. FINCEN and the FAU are working to improve bilateral information exchange to support the investigation of financial crimes. Existing laws allow USG personnel and those of other government's adequate access to money laundering records. Paraguay entered into a bilateral agreement with Brazil in 2000 to permit the exchange of money laundering information. It also endorsed the 1987 Basel Committee core principles. It is a party to the 1988 UN Drug Convention. Paraguay participates in Summit of the Americas and CICAD-related meetings on money laundering and is a member of the Egmont Group. It is also a member of the South American Financial Action Task Force (GAFISUD). As there are no offshore banks, Paraguay is not a member of the offshore group of banking supervisors and does not have agreements with home country supervisors regarding supervision. Paraguay has signed but not ratified the Inter-American Convention on Mutual Assistance in Criminal Matters and the UN Convention against Transnational Organized Crime. Paraguay has signed the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Hemispheric Drug Strategy.

Money laundering is a criminal offense, and carries a prison term of two years. The money laundering law requires banks and financial institutions to know and record the identity of customers engaging in significant large currency transactions, and to report those suspicious activities to SEPRELAD. Bank secrecy laws do not prevent banks and financial institutions from disclosing information to bank supervisors and law enforcement entities. Bankers and other are protected under the anti-money laundering law with respect to their cooperation with law enforcement agencies.

The U.S. does not exercise its prerogative under the financial information exchange agreement to request cooperation from the GOP on financial crime investigations. Paraguayan authorities continue to review the problem of international transportation of illegal-source currency and monetary instruments.

Paraguay is a major re-exporter of smuggled goods, although this aspect of the informal economy has suffered as a result of increasing government actions against piracy. There is no evidence that the narcotics trade significantly funds this centuries-old practice. There are no controls on the amount of currency that can be brought into or out of the country, and there are no cross-border reporting requirements.

The money laundering law contains "due diligence" and "banker negligence" provisions. The law also applies money laundering controls to non-banking financial institutions, such as exchange houses. Banking groups have not objected to GOP money laundering laws and policies.

There was one arrest and prosecution for money laundering. The case was dismissed by the judge because of a technicality at the time of arrest. There were several other cases submitted to the AG's office by SEPRELAD in mid-September that are going through the judicial investigative phase. The Superintendent of Banks did report drops in transactions after September 11.

The anti-money laundering law provides a basic system for forfeiting narcotics-related assets, including bank accounts, and a system for forfeiting proceeds derived from narcotics-trafficking. The law authorizes sharing forfeited assets with other governments. Legitimate businesses can be seized if they are derived from illicit proceeds. They can be fined or subjected to administrative sanctions if merely used to launder money. All narcotics-related assets seized under Law 1340 are deposited in the counternarcotics police (DINAR) Central Bank Account. Under the anti-money laundering law, proceeds are distributed at the discretion of the judge adjudicating the case. The legal and widespread use of shell corporations, bearer share corporations, and front men are legal loopholes used to shield assets. Seized assets may only be forfeited once a suspect has been convicted. The law only provides for criminal forfeiture.

Asset forfeiture is rare given that a conviction is required before a narcotics-related asset can be forfeited. But the GOP enforces existing drug-related asset seizure and forfeiture laws. The dollar value of seized assets, however, is minimal.

The SENAD is the GOP entity with primary responsibility for tracing and seizing assets. It has adequate police but limited resources to trace and seize assets. The USG has not sought GOP assistance in tracing or seizing assets. The SENAD and SEPRELAD make use of tips from other country law enforcement

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officials. To date, there have been no retaliatory actions taken by traffickers, nor has there been trafficker retaliation to the GOP's modest asset seizures.

While the GOP took some positive steps, particularly in the wake of September 11, there are other initiatives that should be pursued so that Paraguay's anti-money laundering regime can be effective. Conducting outreach activities to sensitize financial institutions about reporting requirements; improving coordination and information sharing protocols between the FAU and FIU that prevent compromise of law-enforcement sensitive information; and passing the proposed legislative changes that will allow the FAU to communicate its findings directly to investigative agencies are some of the steps that the GOP should take in the near future.

**Peru.** Peru is not a regional financial. It has not developed into a major money laundering haven. Narcotics-related money laundering nevertheless occurs, and numerous former government officials are under investigation for corruption-related crimes including money laundering. During the past two years, the Government of Peru (GOP) has made strong efforts at uncovering and recovering the millions of U.S. dollars believed to be the proceeds of money laundering activities carried out by Vladimiro Montesinos, former director of the Peruvian National Intelligence Service.

The GOP has put in place a limited anti-money laundering legislative and regulatory framework. The current system criminalizes the laundering of proceeds directly associated with narcotics-trafficking (since 1992) and narcoterrorism (since 1993). The existing Penal Code imposes a mandatory penalty of life imprisonment for bank and finance officials convicted of money laundering, which is more severe than that for the predicate offense of drug trafficking. The severity of this penalty has impacted on prosecutions, and to date, there have been no convictions for money laundering.

Additional anti-money laundering provisions were put in place with the enactment of the General Law of the Financial and Insurance System, and the Organic Law of the Superintendency of Banking and Insurance. These laws introduced requirements for banks and other financial institutions to identify customers and report unusual and suspicious financial transactions to the Office of the Attorney General with a copy to the Superintendency of Banking and Insurance. The Office of the Attorney General shares information with the Financial Investigative Office of the Peruvian National Police Directorate of Counternarcotics (DINANDRO). The laws also required the reporting of currency transactions over \$10,000, but this requirement was suspended in 1998. The Superintendency of Banking and Insurance reinstated the currency transaction reporting in June 2001 but it is not clear to what extent financial institutions have complied.

The charges of corruption and money laundering at the highest levels of the past administration have generated a groundswell of support for broader laws. The new administration of President Alejandro Toledo leads a coordinated effort to provide Peru with comprehensive anti-money laundering laws that will meet stringent international standards. Separate bills to amend the Penal Code and expand the predicate offenses for money laundering to include all serious crimes, widen the range of financial entities required to report cash and suspicious transactions; and create a Financial Intelligence Unit (FIU) were approved at committee levels but did not reach the full Congress for consideration before it adjourned in June 2001. The July 2001 Congress formed a new counternarcotics and anti-money laundering committee that is re-drafting the bills.

Peru is a party to the 1988 UN Drug Convention. On January 23, 2002, Peru deposited its instrument of ratification for the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Peru and the USG signed a new extradition treaty in July 2001. Peru is a member of the Organization of American States Drug Abuse Control Commission (OAS CICAD) Experts Group to Control Money Laundering, and the South American Financial Action Task Force (GAFISUD). The Peruvian Ministry of Finance and the U.S. Treasury Department exchange financial information for money laundering investigations based on a 1991 Financial Information Exchange Agreement (FIEA).

Passage of the bills amending the Penal Code and establishing an FIU must remain a priority since they will provide the GOP with much needed mechanisms to detect and investigate money laundering activities.

**Philippines.** The Philippines has a gross domestic product of more than \$81 billion dollars and is a major financial center in the Pacific. In the past few years the illegal drug trade in the Philippines reportedly has evolved into a billion-dollar industry. Additionally, the Philippines has experienced an increase in foreign organized criminal activity from China, Hong Kong, and Taiwan. 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. Corruption of some government officials is also a source for laundered funds.

In June 2000, the Financial Action Task Force (FATF) identified Philippines as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns that included the failure to criminalize money laundering, the absence of mandatory suspicious transaction reporting, and excessive bank secrecy provisions.

In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to certain transactions or banking relationships involving the Philippines, in light of the suspicious transaction reporting obligations of financial institutions operating in the United States.

In June 2001, FATF determined that the Philippines had made insufficient progress towards remedying deficiencies in its anti-money laundering regime and warned that FATF would impose countermeasures by September 30, 2001 if the Philippines failed to address such deficiencies.

In the face of mounting international pressure, the Philippines enacted legislation in September 2001 that addressed many of the concerns noted by both the FATF and the United States. In light of these reforms, FATF withdrew its call for countermeasures against Philippines in September 2001. However, both the FATF designation and the U.S. advisory remain in place.

The Anti-Money Laundering Act of 2001 (ALMA) addresses many of the deficiencies identified by the FATF and the United States. For example, sections 4 and 14 of the AMLA criminalize money laundering, an offense defined to include the conducting of activity involving the proceeds of any unlawful activity. The penalty for money laundering under the AMLA includes a term of imprisonment of up to seven years.

Section 9 of the AMLA requires “covered institutions”—i.e., banks, insurance companies and broker-dealers in securities—to establish and record the true identity of their clients based on official documents, and to maintain records of all transactions for five years from the date of such transactions. Section 9 further requires that covered institutions report suspicious activity; under the AMLA, such suspicious activity reports will not be deemed to violate the strict bank secrecy laws of the Philippines. The provisions of section 9 build upon the customer identification and suspicious activity reporting requirements contained in the earlier Bank Circulars 251 and 253, respectively. The AMLA sets the threshold for reporting suspicious transactions at “PHP 4 million or an equivalent in foreign currency based on the prevailing exchange rate within five consecutive banking days.”

Section 7 of the AMLA establishes the Anti-Money Laundering Council (AMLC). The AMLC will be composed of the Governor of the Bangko Sentral ng Pilipinas as chairman, and the Commissioner of the Insurance Commission and the Chairman of the Securities Exchange Commission as members. The AMLC is authorized to, among other things, receive suspicious activity reports from covered institutions and to freeze assets alleged to be connected to money laundering.

Section 11 of the AMLA relaxes the strict bank secrecy laws of the Philippines and allows the AMLC to examine any particular deposit or investment with any banking institution or non-bank financial institution upon order of any competent court in cases of violation of the Act when it has been established that there



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is probable cause that the deposits or investments involved are in any way related to a money laundering offense. Deposits made before the effective date of the ALMA are not subject to section 11.

As of year end, the AML Council had not yet been staffed.

The Philippines is a member of the Asia/Pacific Group (APG) on Money Laundering and is a party to the 1988 UN Drug Convention. In December 2000, the Philippines signed the United Nations Convention against Transnational Organized Crime. The Philippines and the United States have a Mutual Legal Assistance Treaty that entered into force in 1996.

The United States is in the process of delivering technical assistance to the Philippines. On November 19, 2001, U.S. Treasury Secretary Paul O'Neill, Philippine Secretary of Finance Jose Isidro Camacho and Philippine Central Bank Governor Rafael Buenaventura signed a Memorandum of Intent Concerning Technical and Other Assistance for an Effective Philippine Anti-Money Laundering Regime. The main purpose of the memorandum of intent is to outline how the U.S. intends to assist the Philippine Government with coming into compliance with international money laundering standards.

Efforts to establish a financial intelligence unit have just begun. In addition, the threshold for reporting suspicious transactions may be too high to be effective. It is also unclear how effective the AMLC may be at examining deposits, given that pre-ALMA deposits are "grandfathered" in for purposes of section 11 of the Act. The Philippines should address deficiencies in this law, staff the AML Council, and finalize and promulgate necessary implementing regulations. The Philippines should ensure that the recently enacted reforms are fully and effectively implemented. Such effective implementation would bring the Philippines' anti-money laundering regime into compliance with international standards.

**Poland.** As a gateway between the former state socialist countries and those of the European Union, as well as to lucrative markets beyond, Poland finds itself in the path of and victim to drug traffickers and organized crime groups bringing narcotics from the Golden Triangle, Latin America, and elsewhere. The burgeoning economy of Europe and open borders with former socialist countries has led to a significant growth in transnational crime. Narcotics-trafficking, organized crime activity, auto theft, smuggling, extortion, counterfeiting, burglary, tax fraud, tax evasion, and other crimes generate criminal proceeds in the range of U.S. \$2-3 billion yearly according to Polish government estimates. Poland's banks serve as transit points for the transfer of criminal proceeds. Polish currency exchange businesses and casinos are likewise venues for money laundering activity.

Various regulations have been enacted since 1992 to combat money laundering in Poland. In 1997, Poland criminalized money laundering. Prosecutors have investigated more than 75 cases involving money laundering in the last five years. To date, only one of the cases forwarded to the courts has resulted in a successful prosecution. Poland's current law allows for customer identification, record keeping and suspicious activity reporting.

In November 2000, the Law on Counteracting the Use of Material Assets from Illegal or Undisclosed Sources in Financial Transactions was adopted. The new Law broadens the offense of money laundering to encompass all serious crimes and increases penalties. The 2000 Law also provided for the creation of a financial intelligence unit (FIU), the General Inspectorate of Financial Information (GIIF), to collect and analyze large and suspicious transactions. The GIIF is housed within the Ministry of Finance and became operational in July 2001. The GIIF has the right to put a suspicious transaction on hold for 48 hours. The Public Prosecutor then has the right to suspend the transaction for three months further, pending a court decision.

A major weakness of Poland's former money laundering regime had been that it did not cover many non-bank financial institutions that had traditionally been used for money laundering. Under the new regime, the scope of institutions subject to identity verification, record keeping, suspicious transaction reporting (SAR) has been widened. Financial institutions subject to the reporting requirements include banks, brokerages, casinos, insurance companies, investment and pension funds, leasing firms, private currency exchange offices, real estate agencies, and notaries public. The 2000 Law also requires financial institutions

to report all transactions or series of related transactions over the equivalent of 10,000 Euros to the newly created GIIF, although these requirements were still being phased in as of the end of 2001. In addition, financial institutions are now required to put internal anti-money laundering procedures into effect.

Poland is a party to the 1988 UN Drug Convention, the European Convention on Extradition and its Protocols, the European Convention on Mutual Legal Assistance in Criminal Matters, and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. As a member of the Council of Europe, Poland participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) and has undergone a mutual evaluation by that group. In November 2001, Poland ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

A Mutual Legal Assistance Treaty between the United States and Poland came into force in 1999. In addition, Poland has signed bilateral mutual legal assistance treaties with Sweden, Finland, the Ukraine, Lithuania, Latvia, Estonia, Germany, Greece and Hungary. The GIIF has been invited by the Egmont Group of FIUs to become a member.

Poland has taken a number of steps to put in place a comprehensive anti-money laundering regime to meet international standards. Poland should fully implement and enforce the new anti-money laundering legislation, and the GIIF should join the Egmont Group of FIUs.

**Portugal.** Officials of the Government of Portugal (GOP) indicate that most of the money laundered in Portugal is drug-related. GOP officials also reported that bureaux de change, wire transfers, and real estate purchases are used for laundering criminal proceeds.

Portugal has a comprehensive anti-money laundering regime. Decree-Laws 15/93, 313/93, and 325/95 (amended by Decree-Law 65/98) criminalize money laundering related to narcotics-trafficking and other serious offenses such as terrorism, arms trafficking, extortion, kidnapping, corruption, and serious economic offenses (specified in a separate economic crimes law). Decree-Law 170/93 requires declaration of cross-border movements of currency that exceed 2.5 million Escudos (Esc.), which is approximately U.S. \$12,000. All financial institutions, including insurance companies, must: identify their customers; maintain records for a minimum of ten years, and demand written proof from customers regarding the origin and beneficiary of transactions that exceed 2.5 million Esc. Non-financial institutions, such as casinos, property dealers, lotteries, and dealers in high-value assets must also: identify customers engaging in large transactions, maintain records, and report suspicious transactions to the Office of the Public Prosecutor.

In October 2001, Parliament approved Decree-Law 5/2002 that established additional legislation to combat organized crime. Under this law, police have the jurisdiction to request files of individuals under investigation. Additionally, with a court order police are now able to obtain and use audio and videotape as evidence in court. The law allows the Public Prosecutor to request that a lien be placed on the assets of individuals being prosecuted in order to facilitate asset seizures related to narcotics and weapons trafficking, terrorism, and money laundering. The law will come into force in 2002.

When money laundering is suspected, financial institutions must cease processing the transaction in question and report it to the judicial authority and the Office of the Public Prosecutor. However, Portugal's system for reporting suspicious transactions is informal; bank officials contact the anti-money laundering authorities and file a formal suspicious transaction report (STR) only if those authorities indicate that one is necessary.

The Public Prosecutor forwards STRs to for analysis to the Judicial Police's Brigada de Investigação de Branqueamento de Capitais (BIB), which is Portugal's financial intelligence unit (FIU). If money laundering is indicated, the Portuguese Judicial Police conduct an investigation. The eight-person BIB consists of six inspectors, one administrator and a director. The BIB reported receiving approximately 100 STRs in the first half of 2001—mainly from banks and other FIUs—and approximately 500 since 1998. The BIB also reported 35 continuing money laundering investigations, with 3 arrests in 2000.

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Portuguese laws also call for the confiscation of property and assets connected to money laundering, and authorize the Portuguese Judicial Police (PJP) to trace illicitly obtained assets-including those passing through casinos and lotteries-even if the predicate crime is committed outside of Portugal. The GOP reported 320 million Esc. (approximately U.S. \$1.4 million) in seized assets in 2000.

Public and private sector regulators and organizations play important roles in Portugal's anti-money laundering program. The Bank of Portugal monitors financial institution compliance through 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 of insurance-related businesses, educates the insurance sector on industry-specific risks, and alerts judicial authorities to evidence of money laundering. The Securities Commission (CMVM) regulates the securities industry through: monitoring compliance by financial intermediaries; providing training for brokers; and alerting judicial authorities to evidence of money laundering. The CMVM has cooperated with foreign authorities in two major investigations that involved funds laundered in Portugal.

The GOP has comprehensive legal procedures that enable it to cooperate with foreign jurisdictions and share seized assets.

The Portuguese islands of Madeira offer one of the few offshore centers in the European Union (EU). The Madeira International Business Center (MIBC) has a free trade zone, an international shipping register, offshore banking, trusts, holding companies, stock corporations, and private limited companies. The latter two business entities are similar to international business corporations (IBCs), of which there are approximately 4,000 registered in Madeira. All entities established in the MIBC will remain tax exempt until 2011. Twenty-seven offshore banks are currently licensed to operate within the MIBC. The Madeira Development Company supervises offshore banks.

Companies can also take advantage of Portugal's double taxation agreements. Decree-Law 10/94 permits existing banks and insurance companies to establish offshore branches. Applications are submitted to the central bank of Portugal for notification, as in the case of EU institutions, or authorization, as in the case of non-EU or new entities. The law allows establishment of "external branches" that conduct operations exclusively with non-residents or other Madeiran offshore entities, and "international branches" that conduct both offshore and domestic business. Although Madeira has some local autonomy, its offshore sector is regulated by Portuguese and EU legislative rules, and is supervised by the competent oversight authorities. Bearer shares are not permitted.

Portugal is a member of the Council of Europe, the European Union, and the Financial Action Task Force (FATF). Portugal held the FATF presidency from 1999 to 2000. Portugal is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified the UN Convention against Transnational Organized Crime. Portugal is also a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime. BIB is a member of the Egmont Group of FIUs.

Portugal has put into place comprehensive and effective measures to combat money laundering. The GOP should institute a more formalized system for reporting suspicious transactions, continue to exercise due diligence over its offshore sector, and closely monitor domestic non-bank financial institutions.

**Qatar.** Qatari has a relatively small population, with a low rate of crime, for both general and financial crimes. Its financial sector, though modern, is limited in size, and subject to strict regulation. Due to these facts, the risk of money laundering appears to be low.

While Qatar has not enacted any anti-money laundering laws to date, the Qatari Central Bank has implemented regulations that require its member financial institutions to review all large currency and suspicious transactions for possible involvement in money laundering. The government has anti-money laundering legislation pending. The police and prosecution authorities have had little experience in investigating any type of financial crime, much less money laundering or terrorist financing. To effectively combat these crimes, the capabilities of these agencies must be strengthened through effective and

extensive training in financial investigations, money laundering, confiscation and international cooperation.

Qatar has taken initial steps to combat money laundering and terrorist financing, but further measures are required. Qatar should proceed expeditiously to enact and implement a comprehensive set of penal and financial regulatory laws, regulations and guidelines, which will prevent its financial system from being misused by money launderers in the future.

**Romania.** Romania is in its third year of developing an anti-money laundering regime. Its geographic location makes it a natural transit country for trafficking in narcotics, arms, stolen vehicles, and illegal aliens and, therefore, vulnerable to money laundering. As in other countries in Eastern Europe, corruption and the presence of organized crime activity facilitate money laundering. Financial crimes and the smuggling of cigarettes, alcohol, coffee and other dutiable commodities round out the predicate crimes that contribute to laundered proceeds.

Romania criminalized money laundering with the adoption in January 1999 of Law N°21/99 “On the Prevention and Punishment of Money Laundering.” The law became effective in April 1999 and mandated provisions for customer identification, record keeping, transaction reporting of a suspicious or unusual nature, currency transaction reporting over 10,000 Euros, a financial intelligence unit (FIU), and internal anti-money laundering procedures and training for all domestic financial institutions covered by the law. The list of entities subject to the reporting requirements includes banks, non-bank financial institutions, attorneys, accountants, and notaries. While banking groups have not openly objected to the implementation of reporting requirements, there remains some discomfort on the part of the banking industry regarding requirements to assist law enforcement. This has been ameliorated by the publication of guidelines for suspicious indicators.

The National Office for the Prevention and Control of Money Laundering (NOPCML) is Romania’s FIU. The NOPCML receives and evaluates suspicious and unusual transaction reports as well as currency transaction reports. Since its establishment the NOPCML has reviewed over 2,000 suspicious transaction reports, eighty percent of which come from the banking sector, and has forwarded 200 preliminary cases to the Public Prosecutor’s Office for investigation. Of these, seven cases resulted in arrests. In 2000 Romanian prosecutors presented a complex case to court charging violations of the new money laundering law. The case involved an amount in excess of U.S. \$30 million.

The Directorate of Economic & Financial Crimes of the national police also has a mandate to pursue money laundering. There have been 200 money laundering cases in the two years since Law N°21/99 was passed. With the passage of Law N° 78 in 2000, corruption became a predicate offense for money laundering.

Romania is a member of the Council of Europe (COE) and participates in the Council of Europe’s Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). A mutual evaluation in April 1999 by the PC-R-EV uncovered a number of areas of concern. These include a high evidence threshold required for reporting suspicious transactions, a potential conflict with bank secrecy legislation, and the lack of provisions for cases in which the reporting provisions are intentionally ignored. Romania is currently working with EU legal experts to address the PC-R-EV concerns.

The NOPCML is a member of the Egmont Group. The Mutual Legal Assistance Treaty signed in May 1999 between the U.S. and Romania entered into force in October 2001. Romania has demonstrated its commitment to international anti-crime initiatives by participating in regional and global anti-crime efforts. Romania is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. In 1997 Romania signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, but it has not yet become a party.

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Romania should continue addressing the concerns of the Council of Europe evaluators as to further improve its anti-money laundering regime and continue its progress on money laundering investigations and prosecutions.

**Russia.** Russia's ability to transform its economy and implement a new anti-money laundering program will be crucial to its success in stemming the laundering of criminal proceeds domestically and fighting money laundering internationally.

Although precise figures are not available, the magnitude of money laundering is believed to be large given the scale of contributing factors involved. Russia's abundance of natural resources, infiltration of society by organized crime, porous borders, geographic role as a gateway to Europe and Asia and under-funding of regulatory and law enforcement agencies leave Russia vulnerable to money laundering.

In the past, capital flight often has been confusingly associated with money laundering since many of the same methods to transfer funds are used in both instances. False invoicing schemes involving the export of oil, precious metals, raw materials and alcohol, and other fictitious trade transactions have been used to facilitate capital flight and tax evasion, as well as to launder criminal proceeds.

Citing the lack of a legal and regulatory framework to combat money laundering, the Financial Action Task Force (FATF), in June of 2000, identified Russia as non-cooperative in the fight against money laundering. In its initial report on the Russian Federation, the FATF found the Russian anti-money laundering program lacking in several areas including: 1) the existence of laws and regulations subscribing to international standards; 2) customer identification requirements; 3) a suspicious transaction reporting system; 4) a fully operational financial intelligence unit with adequate resources; and, 5) effective and timely procedures for providing evidence to assist in foreign money laundering investigations.

These deficiencies also prompted the United States Treasury to issue an advisory in July of 2000 to U.S. financial institutions, urging them "to give enhanced scrutiny to transactions or banking relationships that do not involve established, and adequately identified and understood, commercial or investment enterprises, as well as to transactions involving the routing of transactions from Russia through third jurisdictions in ways that appear unrelated to commercial necessities." Most other FATF members issued similar advisories. In June of 2001, the FATF determined that Russia had made insufficient progress towards remedying deficiencies in its anti-money laundering regime and warned that it would recommend that its membership impose countermeasures by September 30, 2001 if adequate progress was not realized.

The Russian Duma passed a law on "Combating the Legalization (Laundering) of Income Obtained by Illegal Means" in July of 2001, which President Putin signed on August 6th. The effective date of this law is February 1st, 2002. Russia's new anti-money laundering law requires obligated financial institutions to monitor and report transactions to an authorized agency, to keep records and to identify their customers. Russian financial institutions (e.g., credit organizations, securities market professionals, insurance and leasing companies, funds transfer organizations and pawnshops must monitor and report to the government covered transactions that exceed 600,000 rubles. Financial institutions must also report transactions when they suspect money laundering is involved. Reportedly, the Central Bank has issued regulations regarding reporting requirements and procedures for banks. A presidential decree of November 1st, 2001 actualized a provision in the law that an executive agency be established as a financial intelligence unit. The decree set up a Committee on Financial Monitoring (CFM), making it accountable to the Ministry of Finance. The CFM chairman has been named and has been engaged in organizing CFM operations. The CFM will serve as an administrative financial intelligence unit, having no law enforcement investigative powers.

The new Russian law complements earlier reforms. In 1999, the Central Bank of Russia instituted regulatory measures to scrutinize offshore financial transactions. In the following six months, wire transfers from Russian banks to offshore financial centers dropped significantly. At the same time the Central Bank curtailed establishing correspondent relations with offshore banks by raising the standards

for “eligible” offshore financial institutions and thereby reducing the number. In July 2000, President Putin vetoed the law “On Free Economic Zones.” That law would have granted customs and tax advantages to various regions of the Russian Federation as a means to encourage economic development. A number of Russian businesses had flocked to these free economic zones in anticipation of passage of this and similar regional laws. Putin’s veto of the law laid to rest an initiative that would have effectively provided offshore status to Russian registered businesses.

In light of the reforms to Russia’s anti-money laundering regime, FATF withdrew its call for countermeasures against Russia in September 2001. Russia, however, remains on FATF’s list of non-cooperative jurisdictions in the international fight against money laundering.

Russia holds membership in the Council of Europe’s Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) and underwent a mutual evaluation in June 2000, which was discussed at the January 2001 meeting of the group. At the behest of President Putin, the Russian Duma ratified the Strasbourg Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and Russia became a party in 2001. Russia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. The United States and Russia signed a Mutual Legal Assistance Treaty in 1999, which entered into force on January 31, 2002 and replaces the Mutual Legal Assistance Agreement of 1995.

U.S. law enforcement and regulatory agencies are engaged in a number of technical assistance projects designed to advance Russia’s anti-money laundering efforts. U.S. technical assistance programs have focused on providing law enforcement, regulators, and prosecutors with anti-money laundering training to combat financial crimes. In addition, technical teams have assisted Russian drafters in developing their new anti-money laundering legislation.

The enactment of comprehensive anti-money laundering legislation in 2001 marked a milestone in Russian efforts to strengthen its anti-money laundering regime. Russia should focus on implementation its revised anti-money laundering program, as this will be a key determinant of Russia’s ability to counter money laundering domestically and become a contributing partner in the global fight against money laundering.

**Samoa.** Samoa does not have a major organized crime, fraud, or drug problem. The most common crimes that generate revenue within the jurisdiction would appear to be low-level fraud and theft. The domestic banking system is very small and there is relatively little risk of significant money laundering derived from domestic sources. Samoa’s offshore banking sector is relatively small but insufficiently regulated. Samoa passed the Money Laundering Prevention Act (MLPA) in June 2000. This law criminalizes money laundering associated with numerous crimes, and sets measures for the prevention of money laundering and related financial supervision.

The MLPA requires financial institutions to report transactions considered suspicious to a Money Laundering Authority (MLA) to be appointed by the Minister of Finance. The MLA will receive and analyze these disclosures, and if it establishes reasonable grounds to suspect that a transaction involves the proceeds of crime, it will refer the information to the attorney general and the Commissioner of Police.

The MLPA compels financial institutions, offshore and onshore, to develop and apply internal policies, procedures, and controls to combat money laundering. It requires financial institutions to record new business transactions exceeding S\$30,000, to retain records for a minimum of seven years, and to identify all parties to the transactions, but still allows anonymous accounts for onshore and offshore banks. This threshold reporting system exposes the financial institutions to potential abuse. As it is written, financial institutions are under no obligation to maintain any record for either single or multiple transactions where the account is under S\$30,000. Section 12 of the MLPA establishes that all financial institutions have an obligation under this law to “develop and establish internal policies, procedures and controls to combat money laundering, and develop audit functions in order to evaluate such policies, procedures and controls.” There is nothing in the legislation that prohibits financial institutions from carrying out business transactions where the beneficial owner of the transactions is unknown, or represented by an intermediary

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who will not disclose the identity of the beneficial owner. Section 8 of the Money Laundering Prevention Act states that the new legislation will override all secrecy obligations for the purpose of money laundering prevention and enforcement. The law requires individuals to report to the MLA if they are carrying with them \$10,000 or more in cash or negotiable instruments upon entering or leaving Samoa.

The Central Bank of Samoa, the Office of the Registrar of International and Foreign Companies, and the Money Laundering Authority (MLA) regulate the financial system. There are three locally incorporated commercial banks. Samoa is an offshore financial centre with eight offshore banks licensed. For entities registered or licensed under the various Offshore Finance Centre Acts there are no currency or exchange controls or regulations, and no foreign exchange levies payable on foreign currency transactions. No income tax or other duties, nor any other direct or indirect tax or stamp duty is payable by registered/licensed entities. The Central Bank supervises onshore banks. The Office of the Registrar of International and Foreign Companies has responsibility for regulation and administration of the offshore sector. There are no casinos, but two local lotteries are in operation.

Under the MLPA, the offense of money laundering is committed by “engaging directly or indirectly, in a transaction that involves property that is the proceeds of crime, knowing or having reasonable grounds for believing the same to be the proceeds of crime, or by receiving, possessing, concealing, disguising, transferring, converting, disposing of, removing from or bringing into Samoa any property that is the proceeds of crime, knowing or having reasonable grounds for believing the same to be the proceeds of crime.” A conviction for a money laundering offense is punishable by a fine not to exceed S\$1 million, a term of imprisonment not to exceed seven years, or both.

The MLPA removes any secrecy protections or prohibitions to the disclosure of relevant information. Moreover, the MLPA provides protection from both civil and criminal liability from disclosures related to potential money laundering offenses to the competent authority.

Samoa currently has 8 offshore banks, 5 international insurance companies, 4551 international business corporations (IBCs), 6 trustee companies, and 165 international trusts. Section 16 of the Offshore Banking Act does not prohibit persons who have been sentenced for an offense involving dishonesty from applying to be employed as directors or managers of offshore banks. The Act only requires prior approval, in writing, of the Minister before doing so without setting any criteria to guide the decision. In addition, there is no provision in the Act that specifies the qualifications for an owner/shareholder of an offshore bank. IBCs may be registered using bearer shares and shelf companies that conceal the identity of the beneficial owner and the date of incorporation of these entities. Corporate entities may be listed as officers and shareholders because Samoan IBCs have all the legal powers of a natural person. There are no requirements to file annual statements or annual returns. These provisions make IBCs particularly attractive to money launderers and have not yet been addressed by Samoan authorities.

International cooperation can only be provided where Samoa has entered into a mutual co-operation agreement with the requesting nation. Under the MLPA, the MLA has no powers to exchange information with overseas counterparts. The inability of the MLA simply to exchange information on an administrative level with its foreign counterparts is a material weakness of the current system.

Samoa is a member of the Asia/Pacific Group on Money Laundering and the Pacific Island Forum. Samoa has not signed the 1988 UN Drug Convention.

Since the passage of the June 2000 MLPA, the Government of Samoa (GOS) has continued to strengthen its anti-money laundering regime. The GOS should move quickly to implement this legislative effort, and issue guidelines to financial institutions so that they have a clear understanding of their obligations under the anti-money laundering law. The GOS should work to ensure that the MLA becomes fully operational. Particular emphasis needs to be directed toward regulation of the offshore financial sector, and eliminating anonymous accounts for onshore and offshore banks. The GOS should enact legislation to identify the beneficial owners of IBCs to help ensure that criminals do not use them for money laundering or other financial crimes.

**Saudi Arabia.** Saudi Arabia is not considered to be a major financial center. However, in recognition of the spread of worldwide money laundering activities, particularly those involving drugs, the Saudi Arabian Monetary Agency (SAMA) published in 1995 money laundering control guidelines to assist Saudi banks from being exploited as channels for illegal transactions and other criminal activity. In 1999, the Saudi Council of Ministers approved amendments to existing money laundering laws intended to bring Saudi Arabia into compliance with the Financial Action Task Force (FATF) 40 Recommendations. However, as of the end of 2001, these amendments had not been implemented.

There is relatively strong bank supervision in Saudi Arabia and individuals or banks suspected of money laundering are subject to criminal prosecution under Shari'a Islamic law, the Banking Control law, and Saudi Arabian labor law. Money laundering cases are heard in a Shari'a court, which bases its jurisdiction on a Koranic passage that states that "assets arising from illegal acts shall be forbidden and confiscated."

SAMA requires that each bank establish internal money laundering control units to review policies, institute necessary investigations, and implement training programs. If money laundering is suspected, banks are required to notify SAMA and the police. SAMA officials and bank compliance officers meet on a monthly basis to share information on money laundering trends. The Ministry of Interior does not publicly disseminate statistics regarding money laundering investigations and prosecutions in Saudi Arabia.

SAMA trains Shari'a judges and conducts semi-annual "awareness courses" designed to educate both bankers and enforcement officers about money laundering, and also presents "customized courses" for groups of security and intelligence personnel and for judges.

Saudi Arabia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

Saudi Arabia should adopt the amendments to existing money laundering laws to bring these laws into compliance with the FATF 40 Recommendations.

**Senegal.** Senegal's banking system and informal money-exchange system are vulnerable to the laundering of proceeds from corruption, drug trafficking, illegal gems and arms trafficking, and trafficking in persons, all of which are prevalent in West Africa. There is also credible evidence to suggest that terrorist organizations use the West African region for money laundering activities through the formal and informal banking systems, as well as through Islamic banks. Article 102 of Senegal's 1997 drug code criminalizes drug laundering by providing punishment of up to 10 years imprisonment. The last money laundering prosecution under this law was in 1999. Senegalese banks also have provisions for suspicious transaction reporting. Some of these reports are sent to the Intergovernmental Group for Action Against Money Laundering (GIABA), the currently non-functional West African regional FATF-style body, established in 1999. A Senegalese magistrate is the nominal acting head of GIABA, which is centered in Dakar.

The Central Bank of West African States (BCEAO), based in Dakar, 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. In July 2001 the BCEAO hosted a conference on money laundering.

Senegal is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Seychelles.** Seychelles continues to develop its offshore financial center, which makes the country vulnerable to money laundering.

The Government of Seychelles (GOS) has taken steps to develop an offshore financial sector in order to diversify its economy away from tourism and increase foreign exchange earnings. The GOS actively markets Seychelles as an offshore financial and business center that allows for the registration of non-resident companies. There are currently over 4800 registered international business companies (IBCs) in Seychelles that pay no taxes in Seychelles, and are not subject to foreign exchange controls. The Seychelles International Business Authority (SIBA), which acts as the central agency for the registration for IBCs,



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promotes the fact that IBCs need not file annual reports. SIBA is part of the Ministry of International Trade, and also manages the Seychelles International Trade Zone. In addition to IBCs, Seychelles permits offshore trusts (registered through a licensed trustee), offshore insurance companies and offshore banking.

A major weakness of Seychelles' offshore 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 IBC. Seychelles officials stated in 2000 that they were reviewing the question of bearer shares and intended to outlaw them. In the interim, the GOS has indicated that it will not approve the issuance of any more bearer shares.

The GOS enacted anti-money laundering legislation, the Anti-Money Laundering Act (AMLA), in 1996. The AMLA criminalizes the laundering of funds from all serious crimes, requires financial institutions and individuals to report to the Central Bank transactions involving suspected cases of money laundering and establishes safe harbor protection for individuals and institutions filing such reports. The AMLA imposes record keeping and customer identification requirements for financial institutions, and also provides for the forfeiture of the proceeds of crime. Under the AMLA, anyone who engages directly or indirectly in a transaction involving money or other property (or who receives, possesses, conceals, disposes of, or brings into Seychelles any money or property) associated with crime is guilty of money laundering. In addition, anyone who aids, abets, procures, or conspires with another person to commit the crime, while knowing, or having reasonable grounds for knowing that the money was derived from an illegal activity, is likewise guilty of money laundering.

The Central Bank of Seychelles in 1998 issued a comprehensive set of guidance notes that further elucidated and strengthened the provisions of the 1996 Act. The Central Bank of the Seychelles receives and analyzes suspicious activity reports and disseminates them to the competent authorities.

The major area of concern regarding anti-money laundering practices in the Seychelles related to the Economic Development Act (EDA) of 1995. The EDA provided concessions (protection from asset seizure and immunity from prosecution for crimes committed abroad and most crimes, other than violent crimes and drug trafficking, committed in the Seychelles) to individuals investing more than U.S. \$10 million in the Seychelles. While the EDA never came into force, it represented a threat to international efforts to combat money laundering. Enactment of such a law had the potential for attracting international criminal enterprises, seeking to shelter themselves and their proceeds from pursuit by legal authorities.

Both the Financial Action Task Force (FATF) and the United States condemned the EDA. Under the provisions of FATF Recommendation 21, the FATF urged financial institutions worldwide to scrutinize closely transactions and business relations with the Seychelles on February 1, 1996. That same year, the U.S. Treasury Department issued an advisory to U.S. financial institutions calling upon them to give enhanced scrutiny to all financial transactions involving the Seychelles. In February 2000, the FATF selected Seychelles for review as a possible non-cooperative jurisdiction in the international effort to combat money laundering. In order to avoid such a designation, the GOS maintained that the EDA had never become effective. Nevertheless, the GOS agreed to repeal the EDA, and it did in the summer of 2000. In October 2000 the FATF rescinded its Recommendation 21.

The Seychelles is a party to the 1988 United Nations Drug Convention, and in December 2000, signed the United Nations Convention against Transnational Organized Crime.

By eliminating its Economic Development Act, Seychelles has taken an important step in the fight against money laundering. The GOS should expand its anti-money laundering efforts by moving to outlaw bearer shares and requiring complete identification of beneficial owners of IBCs. The GOS should establish a financial intelligence unit to collect, analyze, and share financial data with foreign counterparts to effectively combat money laundering and other financial crimes. Seychelles should also sign the Memorandum of Understanding with the Eastern and Southern Africa Anti-Money Laundering Group and become an active participant.

**Singapore.** As a significant international financial and investment center, and in particular a major offshore financial center, Singapore is attractive to potential launderers. Bank secrecy laws and the lack of routine currency reporting requirements may make Singapore attractive to drug traffickers seeking to launder and move their money. As of October 2001, there were 83 offshore banks in Singapore, all branches of foreign banks. There are no offshore trusts, although banks may open trust, nominee, and fiduciary accounts. All banks in Singapore, whether domestic or offshore, are subject to the same regulation, record keeping and reporting requirements. There are also hundreds of offshore international and financial service businesses. An offshore company must have a locally-registered office with a physical address and a minimum of two directors, at least one of who must be a Singaporean citizen, permanent resident or employment pass holder. Bearer shares are not permitted. A company incorporated in Singapore has the same status and powers as a natural person.

Although legislation against money laundering has been on the books since the Drug Trafficking Act of 1992, it is the most recent legislation and regulations that significantly weaken bank secrecy in cases involving most serious criminal activity, including narcotics-related money laundering. To bolster law enforcement cooperation and facilitate information exchange, including information to combat narcotics related money laundering; Singapore and the U.S. signed the Drug Designation Agreement (DDA) in November 2000, after three years of negotiations. It entered into force in early 2001. The DDA facilitates the exchange of banking and corporate information on drug money laundering suspects and targets to include access to bank records, reciprocal honoring of seizure/forfeiture warrants to include the execution of these warrants and the freezing and/or forfeiture of the proceeds of the drug trafficking, testimony of witnesses, service of process, and the sharing of seized assets. Implementation and use of the DDA is expected to result in significant seizures of narcotics-related proceeds in the years ahead. The DDA is the first such agreement Singapore has undertaken with another government and is also the first agreement made under the auspices of Singapore's Mutual Assistance in Criminal Matters Act that was enacted early in 2000. The DDA, however, is limited to narcotics cases only and does not apply to non-narcotics related money laundering or financial fraud.

The GOS enacted the Mutual Assistance in Criminal Matters Act (MACM) in March 2000. The MACM paved the way for the signing of the DDA with the United States eight months later. The MACM consolidated the existing mutual assistance provisions of the Drug Trafficking Act (DTA) of 1993 and ensured that the GOS could share records in connection with narcotics investigations and proceedings. The MACM applies to countries that have concluded treaties, memoranda of understanding or other agreements with Singapore.

The Corruption, Drug Trafficking and other Serious Crimes (Confiscation of Benefits) Act of 1999 (CDSA) criminalized the laundering of proceeds from narcotics and over 150 other offenses. Financial institutions must report suspicious transactions and positively identify customers engaging in large currency transactions. Banks are required to maintain adequate records to respond quickly to Government of Singapore (GOS) inquiries in money laundering cases. However, there are no reporting requirements on amounts of currency brought into or taken out of Singapore.

The Monetary Authority of Singapore (MAS), which is part of the Ministry of Finance, serves as the de facto central bank of Singapore and is the regulator of all financial institutions. In 2000 MAS issued a series of regulatory guidelines (i.e., "Notices") requiring banks to apply "know your customer" standards, adopt internal policies for staff compliance, and cooperate with enforcement agencies on money laundering cases. Banks must obtain documentation, such as passports or identity cards, from all personal customers so that the bank can verify their names, permanent contact addresses, dates of birth, and nationalities, and conduct inquiries into the bona fides of company customers. The regulations specifically require that banks obtain evidence of the identity of the beneficial owners of shell companies or trusts. The guidelines also mandate specific record keeping and reporting requirements, outline examples of suspicious transactions that should prompt reporting, and establish mandatory intra-company point-of-contact and staff training requirements. MAS Notice 626 applies to banks; Notice 824 applies to Finance Companies; Notice 1014 applies to Merchant Banks; and Notice 314 to Direct Life Insurers and Brokers.

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MAS issued similar guidelines for securities dealers and investment advisors, and futures brokers and advisors.

The Suspect Transaction Reporting Office (STRO) began operating on 10 January 2000 and receives and analyzes suspicious transaction reports filed by financial institutions. It is also authorized to exchange intelligence derived from these reports with foreign counterparts.

Singapore is party to the 1988 UN Drug Convention, and in December 2000 signed the UN Convention against Transnational Organized Crime. Singapore is a member of the Financial Action Task Force, the Asia/Pacific Group (APG) on Money Laundering, and the Offshore Group of Banking Supervisors.

The GOS should continue close monitoring of its domestic and offshore financial sectors. As a major financial center, it should also consider measures to monitor large currency movements into and out of the country to ensure that international criminals do not abuse Singapore's financial system.

**Slovakia.** The geographic, economic, and legal conditions that shape the money laundering environment in Slovakia are typical of those in other Central European transition economies. Slovakia's location along the major lines of communication connecting Western, Eastern, and Southeastern Europe make it a transit country for smuggling and trafficking in narcotics, arms, stolen vehicles, and illegal aliens. Organized crime activity and the opportunities to use gray market channels for laundering also lead to a favorable money laundering environment. Financial crimes such as fraud, tax evasion, embezzlement, and conducting illegal business have been quite problematic for Slovak authorities. Non-bank financial institutions have also been particularly susceptible to laundering, as until January 1, 2001 they were not subject to transaction reporting requirements.

Slovakia's previous anti-money laundering legislation, Act N°249/1994 (later amended by Act N° 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. Article 252 "Legalization of Proceeds from Criminal Activity" of the Slovak Criminal Code came into force at the same time. These measures criminalize money laundering for all serious crimes and impose customer identification, record keeping, and suspicious transaction reporting requirements on banks.

In October 2000, Act No 249/1994 was supplanted when the Slovak Parliament adopted the law "On Protection against the Legalization of Proceeds from Criminal Activities" (367/2000). It required non-bank financial institutions to report suspicious transactions beginning January 1, 2001. Non-bank financial institutions subject to the new law are: casinos, post offices, brokers, stock exchanges, commodity exchanges, asset management companies, insurance companies, tax advisors, auditors, and credit unions. The law also abolishes new anonymous passbook savings accounts. A July 2001 Financial Action Task Force (FATF) evaluation concluded that "the Slovak Republic has a well functioning system to combat money laundering with enacted legislation and an established financial intelligence unit." However, the report also pointed out residual deficiencies in Slovakia's anti-money laundering regime such as the continued existence of anonymous bearer passbooks. Slovakia has since indicated that these passbooks are being phased out. Other deficiencies noted by FATF included the lack of institutionalized co-operation between the FIU and non-bank financial institutions supervisors; the absence of automatic reporting obligations for non-banking supervisory authorities; the need for identification requirements regarding beneficial owners; and the necessity to reconsider the term of three days within which a reporting entity should inform the financial police on an unusual business activity. Finally, the limited resources the financial police were noted as an area that needs improvement.

The financial intelligence unit (OFiS) of the Bureau of Financial Police (UFP) has jurisdictional responsibilities over money laundering violations. Established in 1996, the OFiS-UFP receives and evaluates the suspicious transaction reports, and collects additional information to establish the 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. Recently about seven percent (7 percent) of 1,000 suspicious transaction reports filed over a year's period triggered criminal prosecutions.

Slovakia is party to the European Convention on Mutual Legal Assistance and became a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime in 2001. Slovakia is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Slovakia became a member of the Organization for Economic Cooperation and Development (OECD) in December 2000, which will expand opportunities for multilateral engagement on combating money laundering. Slovakia is a member of the Council of Europe (COE) and participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). Slovakia underwent a mutual evaluation by this group in 1998 and has been implementing changes to its money laundering regime based on the report's recommendations.

The OFiS-UFP is a member of the Egmont Group. Slovakia has an MOU with the financial intelligence units of Slovenia and Belgium. The OFiS-UFP is the responsible authority for international exchange of information regarding money laundering under the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

On January 26, 2001 Slovakia signed the International Convention on the Suppression of Financing Terrorism. Appropriate ministries have been directed to incorporate all requirements pursuant to the convention in the Slovak penal code and criminal legislation by year's end. The Convention is expected to be ratified during the first half of 2002.

Slovakia continues to improve its anti-money laundering legislation. Continued implementation of the provisions of Slovakia's newly passed anti-money laundering legislation will give the Slovak financial system greater protection by helping it prevent and detect money laundering in all financial sectors.

**Slovenia.** Slovenia's economic stability and location on the Balkan drug route offer attractive opportunities for money laundering. Major sources of illegal proceeds are auto theft, narcotics-trafficking, fraud, tax evasion, and alien smuggling. Organized crime activity is increasing. Money laundering occurs through the banking system, currency exchange houses, casinos, real estate transactions, and the physical transport of currency across borders.

Slovenia has a financial intelligence unit, the Office for Money Laundering Prevention (OMLP), which is a member of the Egmont Group.

Slovenia's 1994 Law on Prevention of Money Laundering criminalized money laundering. It requires all financial institutions, casinos, and legal and natural persons to report suspicious transactions and currency transactions above U.S. \$22,000. Records must be retained for a minimum of five years.

In October 2001, the Slovenian Parliament passed an anti-money laundering law that, among other provisions, expanded the OMLP's sources of available financial information and extended OMLP's authority to temporarily halt suspect transactions.

Slovenia is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) and has undergone a mutual evaluation by the Committee. Slovenia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Solomon Islands.** The Solomon Islands has no significant exposure to money laundering or other financial crime. The Islands' banking system is small. The country has not criminalized money laundering.

The Solomon Islands is not a party to the 1988 UN Drug Convention.

**South Africa.** South Africa's position as the major financial center in the region and its relatively sophisticated and unprotected banking and financial sector make that nation a very attractive target for transnational criminal syndicates. The Russian Mafia, Chinese Triads, and Nigerian drug traffickers have

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been identified in South Africa, along with native South African criminal groups. Diamonds and weapons smuggling, trade in endangered species, narcotics-trafficking, and money laundering are major criminal activities challenging local law enforcement. Reportedly, between \$2 and \$8 Billion U.S. dollars are laundered through South African institutions every year.

The Proceeds of Crime Act, No. 76 of 1996, criminalized money laundering for all serious crimes. This Act was superseded by the Prevention of Organized Crime Act, No 121 of 1998 (POCA), which also criminalizes money laundering, mandates the reporting of suspicious transactions, and provides a “safe harbor” for good faith compliance. Subsequent regulations directed that these reports be sent to the Commercial Crime Unit of the South African Police Service. Both of these Acts contain criminal and civil forfeiture provisions. However, South Africa has yet to successfully implement this legislation.

In November 2001, The National Council of Provinces, the upper chamber of parliament, passed the Financial Intelligence Center Bill (FICB). The FICB provides for the establishment and staffing of a Financial Intelligence Center (FIC) that would coordinate policy and efforts to counter money laundering activities and act as a centralized repository of information. The FICB creates new legal categories of accountable and reporting institutions—that is companies and businesses considered particularly vulnerable to money laundering activities—such as banks, life insurance companies, foreign exchange dealers, casinos and estate agents. FICB requires these institutions to report suspicious transactions, identify customers, maintain records of transactions for at least five years, and appoint compliance officers to train employees to comply with the law. Suspicious transactions are to be reported to the FIC. If it has reasonable grounds to suspect that a transaction involves the proceeds of criminal activities, the FIC will forward this information to the investigative and prosecutorial authorities.

The FICB also establishes a Money Laundering Advisory Council to advise the Minister of Finance on policies and measures to combat money laundering. Regulations to implement the FICB are being drafted. Reportedly the first phase of implementation will begin in June 2002 when banks will be required to know their clients and start reporting suspicious and unusual transactions. Plans are to have the FIC operational by the spring of 2002.

South Africa is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The U.S. and South Africa have concluded a bilateral extradition treaty and a Mutual Legal Assistance Treaty, both of which entered into force on June 25, 2001. South Africa has not yet signed the Memorandum of Understanding with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Enactment and implementation of the newly enacted legislation will significantly strengthen South Africa’s anti-money laundering regime and help protect South Africa’s banking sector from abuse by criminals and criminal organizations.

**Spain.** Money laundering in Spain derives primarily from the proceeds of the cocaine trade, and there is also a significant black market for smuggled goods. The laundering occurs primarily in the financial system although there are indications money is also laundered through the real estate sector. Drug traffickers continue to resort to courier networks to remit large amounts of bulk cash to South America and the Middle East.

The Government of Spain (GOS) remains committed to combat drug trafficking, terrorism and financial crimes. Its 1993 Anti-Money Laundering Law (No. 19) and corresponding 1995 regulations cover laundering linked to illicit drugs, terrorism, and organized crime. The law and regulations require the financial sector to identify customers, keep records of transactions, and report suspicious financial transactions. The law established the Commission for the Prevention of Money Laundering and Monetary Offenses to coordinate the government’s anti-money laundering efforts and carry out regulatory and training functions for the financial sector. The financial sector includes banks, mutual savings associations, insurers, financial advisers, postal services, currency exchange outlets, and casinos.

The Executive Service of the Commission for the Prevention of Money Laundering (SEPBLAC) serves as Spain’s financial intelligence unit. SEPBLAC receives and analyzes the reports of suspicious financial

transactions and forwards those, which may indicate money laundering activity to law enforcement agencies.

Under Spain's 2000-2008 National Drug Strategy, the government targets money laundering and illicit commerce in chemical precursors and allows for increased counternarcotics and anti-money laundering cooperation with other countries. It also established regional police units in zones with high intensity organized crime activity.

Spain is a member of the FATF, an observer member of the South American Financial Action Task Force (GAFISUD), and a cooperating/supporting member of the Caribbean Financial Action Task Force (CFATF). It is a party to the 1988 UN Drug Convention and has signed but not yet ratified the 2000 UN Convention against Transnational Organized Crime. SEPBLAC is a member of the Egmont Group of FIUs.

Spain has signed criminal legal assistance agreements with Argentina, Australia, Canada, Chile, the Dominican Republic, Mexico, Morocco, Uruguay, and the United States. Spain's Mutual Legal Assistance Treaty with the U.S. has been in effect since 1993. Spain also has entered into bilateral agreements for cooperation and information exchange in money laundering issues with Bolivia, Chile, El Salvador, France, Israel, Italy, Malta, Mexico, Panama, Portugal, Russia, Turkey, Venezuela, Uruguay, and the United States.

The Government of Spain should continue its strong enforcement of its anti-money laundering program and leadership in the international arena. It should consider if additional measures are required to address possible money laundering in the stock market to ensure that the sector is not used for financial crimes.

**Sri Lanka.** Sri Lanka is not considered to be a money laundering center or important financial center in the region. Sri Lanka maintains strict currency controls that inhibit money laundering activity.

Sri Lanka's Bank Secrecy Act makes financial transactions relating to narcotics-trafficking illegal. Sri Lanka has drafted an anti-money laundering bill that contains know your customer provisions and would hold bank directors liable if their institutions are used for money laundering. This legislation has not yet been presented to Parliament.

Sri Lanka is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. Sri Lanka is a member of the Asia/Pacific Group on Money Laundering (APG).

**St. Kitts and Nevis.** St. Kitts and Nevis continues to be listed by the Financial Action Task Force (the FATF) as a non-cooperative country or territory (NCCT). In addition, the advisory issued by the U.S. Department of the Treasury relating to transactions with St. Kitts and Nevis remains in effect. However, St. Kitts and Nevis recently enacted legislation addressing many of the concerns noted by both the FATF and the U.S. Department of the Treasury.

St. Kitts and Nevis is a federation composed of two islands located in the eastern Caribbean Sea. It is at major risk for corruption and money laundering due to the high volume of drug trafficking activity through and around the islands, the presence of known traffickers on the islands, an improperly regulated economic citizenship program and offshore services that protect client secrecy. Most of the financial activity in the federation is concentrated in Nevis, whose economy has become increasingly dependent upon the fees generated by the registration of offshore entities. Nevis offshore sector has one offshore bank, approximately 22,000 international business companies, and 3,000 trusts. The Eastern Caribbean Central Bank now has direct responsibility for supervising the offshore bank in Nevis and for making recommendations regarding approval of offshore bank licenses.

In June 2000, FATF identified St. Kitts and Nevis as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns surrounding the anti-money laundering regime of St. Kitts and Nevis. Among the problems identified by FATF were the narrow definition of money laundering as a punishable offense, the absence of mandatory suspicious transaction reporting, and

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the lack of effective supervision of the Nevis offshore sector. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through the Federation of St. Kitts and Nevis, or involving entities organized or domiciled, or persons maintaining accounts, in St. Kitts and Nevis.

St. Kitts and Nevis has taken some steps to address the deficiencies in its counter-money laundering regime. For example, the Proceeds of Crime Act No. 16 of 2000 criminalizes money laundering from serious offenses (defined to include more than drug offenses) and imposes penalties ranging from imprisonment to monetary fines. The Act also overrides secrecy provisions, which may have constituted obstacles to access information with respect to account holders or beneficial owners on the part of administrative and judicial authorities. In addition, the Financial Intelligence Unit Act of 2000 authorizes the creation of a financial intelligence unit (FIU). The FIU formed in 2001 and has a director, deputy director, two legal representatives, and five police officers.

In 2001, St. Kitts and Nevis continued to enact measures designed to remedy shortcomings in its counter-money laundering regime. For example, St. Kitts and Nevis issued regulations that require financial institutions to identify their customers, to maintain a record of transactions, to report suspicious transactions, and to establish anti-money laundering training programs. St. Kitts and Nevis also enacted legislation requiring that certain identifying information be maintained about bearer certificates, including the name and address of the bearer of the certificate, as well as its beneficial owner. In addition to these measures, Nevis issued regulations aimed at facilitating the identification of beneficial owners of corporations and corporate shareholders.

St. Kitts and Nevis is a member of the Caribbean Financial Action Task Force and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. A mutual legal assistance treaty between St. Kitts and Nevis and the United States entered into force in early 2000. St. Kitts and Nevis is a party to the 1988 UN Drug Convention and in November 2001 signed the UN Convention against Transnational Organized Crime.

Notwithstanding its recent progress, St. Kitts and Nevis remains a jurisdiction of concern with respect to money laundering. It is not clear whether St. Kitts and Nevis is devoting enough resources to effectively implement its new counter-money laundering regime. Moreover, it remains to be seen whether Nevis can effectively supervise its offshore sector. St. Kitts and Nevis need to take those steps necessary to effectively implement its new counter-money laundering laws. Such effective implementation would bring St. Kitts and Nevis's anti-money laundering regime into compliance with international standards.

**St. Lucia.** St. Lucia is not a major financial center; however, it has developed an offshore financial services center that could make the island more vulnerable to money laundering and other financial crimes.

The Government of St. Lucia (GOSL) established the Committee on Financial Services in 2001. The Committee, which meets monthly, is designed to safeguard St. Lucia's financial services sector. The Committee is composed of the Minister of Finance, the Attorney General, the Solicitor General, the Director of Public Prosecutions, the Director of Financial Services, the Registrar of Business Companies, the Commissioner of Police, the Deputy Permanent Secretary of the Ministry of Commerce, the police officer in charge of Special Branch, the Comptroller of Inland Revenue, and others.

The GOSL is also developing a financial intelligence unit, which it expects will become operational in 2002. It is also drafting legislation to include a new Criminal Code and Evidence Act.

The 1993 Proceeds of Crime Act criminalized money laundering in relation to narcotics. The Act also provided for a voluntary system of reporting account information to the police or prosecutor when such information may be relevant to an investigation or prosecution. In addition, the Act required financial institutions to retain information on new accounts and details of transactions for seven years. Many of the 1993 Act provisions were superseded by the 1999 Money Laundering (Prevention) Act, which criminalizes the laundering of proceeds relating to 15 prescribed offenses, including drug trafficking, corruption, fraud,

terrorism, gambling, and robbery. The Money Laundering (Prevention) Act mandates suspicious transaction reporting requirements, and imposes record keeping requirements.

In addition, the Money Laundering (Prevention) Act imposes a duty on financial institutions to take “reasonable measures” to establish the identity of customers, and requires accounts to be maintained in the true name of the holder. The Act also now requires an institution to take reasonable measures to identify the underlying beneficial owner when an agent, trustee, or nominee operates an account. These obligations apply to domestic and offshore financial institutions, including credit unions, trust companies, and insurance companies. In April 2000, the Financial Services Supervision Unit issued detailed guidance notes, entitled “Minimum Due Diligence Checks, to be conducted by Registered Agents and Trustees.”

Pursuant to the Act, the Money Laundering (Prevention) Authority was established in early 2000. The Authority consists of five persons “who have sound knowledge of the law, banking or finance.” The Authority’s functions include receipt of suspicious transactions reports, subsequent investigation of the transactions, dissemination of information within or outside of St. Lucia, and monitoring of compliance with the law. The Money Laundering (Prevention) Act imposes a duty on the Authority to cooperate with foreign competent authorities. Assistance includes the provision of documents, giving of testimony, undertaking of examinations, execution of search and seizure, and the provision of information and evidential items.

In 1999, the GOSL also enacted a comprehensive inventory of offshore legislation, consisting of the International Business Companies (IBC) Act, the Registered Agent and Trustee Licensing Act, the International Trusts Act, the International Insurance Act, the Mutual Funds Act, and the International Banks Act. The sector has one offshore bank, three insurance companies, and approximately 100 international business corporations (IBC).

The IBC Act does not provide for a licensing regime, but allows for a simple registration process, which is automatic upon submission of the correct documents. IBCs intending to engage in banking, insurance, or mutual funds business may not be registered without the approval of the Minister. An IBC may be struck off the register on the grounds of carrying on business against the public interest.

As a member of the Caribbean Financial Action Task Force (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 is a party to the 1988 UN Drug Convention and a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In February 2000, by an exchange of instruments of ratification, St. Lucia and the U.S. brought into force a Mutual Legal Assistance Treaty and an extradition treaty. St. Lucia signed the UN Convention against Transnational Organized Crime on November 20, 2001.

The GOSL should continue to enhance and implement money laundering legislation and increase supervision of the offshore sector. The GOSL needs to fully establish the financial intelligence unit to allow information exchange with foreign authorities.

**St. Vincent and the Grenadines.** St. Vincent and the Grenadines’ (SVG) vulnerability to money laundering stems from a rapid expansion and inadequate regulation of its offshore sector, deficient anti-money laundering regime, and strict secrecy laws. SVG is a transshipment point for cocaine, and marijuana production plays an important role in the local economy. However, the volume of drug production does not reach the major-producer threshold nor do they significantly affect the United States. In December 2001 SVG enacted several laws that, when fully implemented, will significantly improve the jurisdiction’s ability to detect, investigate, and prosecute financial crimes.

SVG’s offshore sector includes approximately 33 offshore banks, 10,135 international business companies (IBCs), 2 offshore insurance companies, 4 mutual funds trusts, international shipping companies, and Internet gaming licenses. IBCs may register on-line, issue bearer shares, and take advantage of pre-named “shelf-companies” that disguise the true dates of incorporation.



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The Eastern Caribbean Central Bank (ECCB) supervises SVG's five domestic banks. SVG's Offshore Finance Authority (OFA) licenses, regulates, and supervises SVG's other offshore sector entities; however, its staff of 12 exercises only rudimentary controls over these institutions. The OFA is also engaged in marketing the offshore sector, thereby creating a conflict of interest. In October 2001, the OFA entered into an administrative agreement with the ECCB authorizing the ECCB to review and make recommendations regarding approval of offshore bank license applications and to directly supervise SVG's offshore banks in cooperation with the OFA. The agreement includes provisions for joint on-site inspections to evaluate the financial soundness of offshore banks. While cooperation has been launched in certain areas, the agreement will not take full effect until early 2002.

The Proceeds of Crime Act (PCA) 1997 criminalizes money laundering related to the proceeds of crime and organized fraud. However, the Act's definition of "proceeds of crime" is not clear. The PCA requires financial institutions to maintain records related to the opening and closing of accounts and transactions that exceed Eastern Caribbean \$5,000 (approximately U.S. \$1,800) for a minimum of seven years. As originally enacted, the PCA also authorized financial institutions to voluntarily report transactions to a police officer or the Director of Public Prosecutions if the institution had reasonable grounds to believe that the transaction involved the proceeds of crime.

According to SVG authorities, the Proceeds of Crime (Amendment) Act 1999 makes this reporting system mandatory, and requires financial institutions to report currency transactions that exceed U.S. \$10,000 to the Anti-Money Laundering Committee (AMLC). The AMLC is comprised of representatives from law enforcement, Customs, and the Offshore Finance Authority, and is tasked with reviewing reports from financial institutions and recommending further investigation if necessary. To date, the AMLC has not met.

In June 2000, the Financial Action Task Force (FATF) identified SVG as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns, including the fact that SVG had not put into place anti-money laundering regulations or guidelines with respect to offshore financial institutions including customer identification, record-keeping, or suspicious transaction reporting requirements. FATF also cited obstacles to international cooperation and rudimentary licensing and registration requirements for financial institutions in SVG. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through SVG, or involving entities organized or domiciled, or persons maintaining accounts, in SVG.

Since July 2000, SVG has acted on a number of fronts to address the concerns of the international community. In July 2000, SVG revoked the licenses of six offshore banks for non-compliance with certain provisions of the Offshore Banking Act (OBA), such as refusal to make quarterly statements of accounts and submit audited financial statements. In August 2000, SVG amended the International Banks Act (IBA) to increase the OFA's oversight of offshore banks, and amended the Confidential Relationships Preservation Act to allow the offshore finance inspector greater access to banking information. However, there continue to be significant restrictions on the sharing of such information with international authorities. In October 2000, SVG again amended the IBA to allow the Offshore Finance Inspector access to the name or title of an account of a customer and any other confidential information about the customer that is in the possession of a license.

In April 2001 SVG revoked its economic citizenship program, which provided the legal basis to sell SVG citizenship and passports; however, no passports had been issued. SVG also began appointing five new members to the OFA board, including a new interim chairman and individuals to regulate offshore insurance and mutual funds. In late June 2001, SVG regulators closed down two more offshore banks reported to be under investigation by U.S. authorities. SVG authorities also reported on efforts to establish a financial intelligence unit. In addition, the International Trust Act continues to restrict recognition of foreign judgments against asset protection trusts established in SVG.

In June 2001, FATF determined that although SVG had taken steps to remedy deficiencies in its anti-money laundering regime, SVG had made insufficient progress to warrant removing it from FATF's list of non-cooperative countries in the international fight against money laundering.

Reportedly, in December 2001, SVG took more comprehensive steps by enacting two major pieces of legislation—the Proceeds of Crime and Money Laundering Prevention Act (PCMLPA) 2001, and the Financial Intelligence Unit (FIU) Act 2001. According to SVG officials, the PCMLPA and FIU Act address many of the concerns noted by the international community with respect to anti-money laundering controls in SVG.

SVG is a member of the Caribbean Financial Action Task Force (CFATF) and has undergone a mutual evaluation by that body. In addition, SVG is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. SVG is a party to the 1988 UN Drug Convention and acceded to the Inter-American Convention Against Corruption in May 2001. An updated extradition treaty and a Mutual Legal Assistance Treaty between the United States and SVG entered into force in September 1999.

SVG should address concerns raised by the international community concerning the remaining deficiencies in SVG's anti-money laundering regime. SVG should work to make the FIU fully operational. SVG also should ensure that it properly supervises the offshore sector and adequately trains regulatory and law enforcement personnel on money laundering operations and investigations.

**Suriname.** Suriname is not a regional financial center. Narcotics-related money laundering is believed to occur through the non-banking financial system and other means, primarily through the sale of gold purchased with illicit funds and manipulation of commercial and state controlled bank accounts. Casinos and cambios may also be used to facilitate money laundering. Suriname's overall anti-money laundering regime is considered weak.

Suriname enacted new counternarcotics legislation in 1999, which provides for greater police investigative and property seizure powers. Suriname is a member of the Caribbean Financial Action Task Force (CFATF), which conducted a mutual evaluation of Suriname's anti-money laundering regime in 2000. The CFATF is currently assisting Suriname in drafting anti-money laundering legislation.

Suriname is a party to the 1988 UN Drug Convention, and is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering.

Suriname should make enactment of anti-money laundering legislation a priority in order to establish a viable anti-money laundering regime.

**Swaziland.** Swaziland is a growing regional financial center. International drug trafficking continues to grow in Swaziland, increasing the threat of money laundering. Swaziland's proximity to South Africa, lack of effective counternarcotics legislation; limited enforcement resources; a relatively open society; and a developed economic infrastructure contribute towards making Swaziland attractive for trafficking organizations and increases the risk for money laundering.

In November 2001, King Mswati III gave his assent to the Money Laundering Act of 2001, which addressed deficiencies in the 1929 narcotics law. The Money Laundering Act states that it is a criminal offense to commit or conspire to commit money laundering related to narcotics-trafficking and other serious crimes, outlines penalties for money laundering and conspiracy, designates the Central Bank of Swaziland as the supervisory authority, establishes a currency reporting requirement, requires banks to report suspicious transactions to the Central Bank, provides conditions when assets may be frozen and forfeited, and addresses international cooperation in money laundering investigations. The Act stipulates that terrorism, arms trafficking, and kidnapping, among other crimes are predicate offenses for money laundering. The penalty for money laundering is six years imprisonment, a fine amounting to roughly \$2,500, or both. The Act also allows for providing assistance to foreign countries that have entered into mutual assistance treaties with the Government of Swaziland.

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Swaziland has an extradition treaty with South Africa, as well as a protocol and mutual understanding on narcotics with Commonwealth Countries.

Swaziland is party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. In 2001, Swaziland signed the Memorandum of Understanding of the newly formed Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body, and actively participates in ESAAMLG's deliberations and working groups.

**Sweden.** Sweden does not appear to have a significant money laundering problem. In 1999, Swedish anti-money laundering legislation was amended to include all serious crimes. Previously, money launderers were usually prosecuted for a receiving offense, such as receiving stolen goods. This tightening up of existing money laundering control was intended to allow Sweden to fulfill the recommendations of the Hague Forfeiture Convention.

Swedish law requires financial institutions, insurance companies, and currency exchange houses to verify customer identification, inquire into a transaction's background, and verify identities for each transaction, particularly in the case of new customers involving amounts above SEK 110,000 (U.S. \$ 10,450). As of January 2001, these requirements applied to money transfer companies as well. Any suspicious transactions are required to be reported to the police financial intelligence unit (FIU). The law was changed in 1999 so that non-complying institutions would be sanctioned, rather than individual officers. Since 1999, the FIU has been entitled to demand customer information from dealers in antiques, jewelry, and art; companies buying and selling new and used vehicles; and firms dealing with gambling and sale of lottery tickets. Swedish law also provides for the seizure of assets derived from drug-related activity.

In 2001 the FIU received 4,163 suspicious transaction reports, a sixty-three percent increase from 2000.

Sweden has endorsed the September 1997 Basel Committee "Core Principles for Effective Banking Supervision." Sweden is a member of the Financial Action Task Force and the Council of Europe. Its FIU is a member of the Egmont Group. Sweden is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. It is also a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

**Switzerland.** Switzerland's central geographic location, relative political, social and monetary stability, wide range of available financial services, and a long tradition of bank secrecy are all factors that make Switzerland a major international financial center. These same factors make Switzerland attractive to potential money launderers. However, Swiss authorities waive bank secrecy rules in the prosecution of money laundering and other criminal cases.

Reporting indicates that criminals attempt to launder proceeds in Switzerland from a wide range of illegal activities conducted worldwide, particularly narcotics-trafficking and corruption. Although both Swiss and foreign individuals or entities conduct money laundering activities in Switzerland, narcotics-related money laundering operations are largely controlled by foreign drug-trafficking organizations. For example, in June 2001 Swiss police arrested five ethnic Albanians on money laundering charges after discovering that their Lausanne travel agency was a front for moving drug money to southeastern Europe. Senior Swiss officials confirmed that some of the money generated by Albanian drug-trafficking rings in Switzerland was going to armed Albanian extremists in the region.

Article 305bis of the Swiss Penal Code criminalizes money laundering. Articles 58 and 305ter of the Swiss Penal Code CFB (Swiss Federal Banking Commission) Directive 98/1 of 1/17/98, and the Agreement on the Banks' Obligation of Due Diligence also address money laundering. Switzerland has also implemented legislation for identifying, tracing, freezing, seizing and forfeiting narcotics-related assets.

On April 1, 1998, Switzerland enacted the October 10, 1997 Money Laundering Act (MLA), which extended money laundering regulations to non-bank financial institutions. The MLA mandated that all financial intermediaries join an accredited self-regulating body (SRB), or apply by April 1, 2000 for direct

supervision under the Money Laundering Financial Control Authority (MLCA) of the Federal Finance Administration. The SRBs must be independent of the management of the intermediaries they supervise and enforce compliance with due diligence obligations. Non-compliance can result in a fine or a revoked license. Between 12,000-15,000 fiduciaries operate in this previously unregulated arena. Key non-bank intermediaries have failed to comply with the law. Some are challenging the law in court, while others are lobbying to have it weakened. Attorneys in the finance department ruled against prosecution of two precedent cases of non-compliance referred by the MLCA.

On December 22, 1999, Parliament passed the Efficiency Bill in an attempt to make the prosecution of organized crime, money laundering, corruption and other white-collar crime more effective. The Bill increased personnel and financing of the criminal police section of the Federal police office. The Bill gave the Federal police and Attorney General's Office the authority to handle cases that are international in scope, that involve several cantons, or that deal with money laundering, organized crime, corruption or white-collar crime. The law became effective on January 1, 2002.

The Money Laundering Reporting Office Switzerland (MROS) is Switzerland's financial intelligence unit, and is a member of the Egmont Group. All financial intermediaries (banks, insurers, fund managers, currency exchange houses, securities brokers, etc.) are legally obliged to establish customer identity when forming a business relationship. They also must notify the MROS, or a government authorized supervisory body, if a transaction appears suspicious. If financial institutions determine that assets were derived from criminal activity, the assets must be frozen immediately until a prosecutor decides on further action.

In October 2000, eleven international private banks, including the UBS and Credit Suisse Group, agreed to voluntary anti-money laundering guidelines (known as the Wolfsberg Anti-Money Laundering Principles) for private banking developed in collaboration with the NGO Transparency International. A recent anticorruption law makes bribery of foreign officials a predicate offense for money laundering.

Switzerland's banking industry offers the same account services for both residents and non-residents alike. These can be opened through various intermediaries who advertise their services. As part of Switzerland's international financial services, banks offer certain well-regulated offshore services, including permitting non-residents to form offshore companies to conduct business, which can be used for tax reduction purposes.

The Swiss Commercial Law does not recognize any offshore mechanism per se and its provisions apply equally to residents and non-residents. The stock company and the limited liability company are two standard forms of incorporation offered by Swiss Commercial Law. The financial intermediary is required to verify the identity of the beneficial owner of the stock company. The financial intermediaries must also be informed of any change regarding the beneficial owner. The stock company requires that U.S. \$64,000 of share capital be deposited prior to formation of the company. From this capital, bearer shares may be issued. The Limited Liability Company requires share capital of U.S. \$12,800 to be on deposit before the company can be formed. This type of company cannot issue bearer shares; the identity of the beneficial owner must be disclosed and is listed in the commercial register.

Switzerland cooperates with the U.S. to trace and seize assets, and has shared a large amount of funds seized with the USG and other governments. The Government of Switzerland has worked closely with the USG on numerous money laundering cases. The banking community cooperates with enforcement efforts. In addition, new legislation permits "spontaneous transmittal"—allowing the Swiss investigating magistrate to signal to foreign law enforcement authorities the existence of evidence in Switzerland. For example, the Swiss used this provision to signal to Peru regarding accounts linked to former Peruvian presidential advisor Vladimiro Montesinos.

Since September 11, 2001, Swiss authorities have been alerting Swiss banks and non-bank financial intermediaries to check their records and accounts against lists of persons and entities with links to terrorism. The accounts of these individuals and entities are to be reported to the Ministry of Justice as

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suspicious transactions. Based on the “State Security” clause of the Swiss constitution, the authorities have ordered banks to freeze assets of firms and individuals included in the UN Security Council’s sanctions list of terrorist groups or supporters. As of mid-December 2001, the Swiss government had blocked thirty accounts, with a U.S. dollar total of \$20 million, from individuals and companies linked to international terrorism.

In December 2000, Switzerland signed the UN Convention Against Transnational Organized Crime. Switzerland has a Mutual Legal Assistance Treaty in place with the U.S. Switzerland has ratified the Council of Europe Convention on the Laundering, Search, Seizure and Confiscation of Proceeds from Crime of 1990 and is a member of the Financial Action Task Force. To date, Switzerland has not ratified the 1988 UN Drug Convention.

The GOS needs to resolve the problem of non-compliance with its MLA, on the part of the non-bank financial intermediaries, in order to more fully implement its anti-money laundering legislation.

**Taiwan.** Taiwan’s location in Asia and its sizable shipping industry make it a crossroads for commerce throughout the Asia-Pacific region. The involvement of Taiwan-based organized crime groups in international narcotics-trafficking exposes Taiwan’s financial institutions to the associated threat of money laundering. Criminal proceeds derived from domestic financial crime and corruption as well as from foreign sources are laundered through Taiwan’s financial system.

An alarming trend identified by Taiwanese authorities is the increasing use of the stock market for money laundering. According to statistics published by Taiwan’s financial intelligence unit (FIU), the Money Laundering Prevention Center (MLPC), 40 percent of money laundering cases prosecuted in Taiwan occurred through securities companies. In 50 percent of money laundering cases, criminal proceeds were transferred abroad. The U.S., Thailand, Hong Kong, and the People’s Republic of China were the primary destinations for laundered proceeds, respectively.

Taiwan’s Money Laundering Control Act (MLCA) of April 1997 criminalized money laundering for a wide variety of crimes, referencing specific predicate offenses. However, some concern has arisen because tax evasion and gaming were not among the predicate offenses referenced. The MLCA for the most part meets international standards for money laundering. However, Taiwan continues to consider various possible amendments to improve the effectiveness of the law. Currently, financial institutions are not prohibited from informing their clients about the reporting of client suspicious transactions to the MLPC. Discussions continue within the Taiwanese agencies to amend the MLCA to prohibit client notification of suspicious transactions. Another proposed amendment under consideration would require a number of non-bank financial institutions with known money laundering activity to report suspicious transactions to the MLPC. These include pawnshops, travel bureaus, antique dealers, auto dealers, and real estate businesses. Since becoming operational in April 1997, the MLCA has processed 436 Suspicious Activity Reports (SARs) in 1997; 1,218 in 1998; 1,199 in 1999; 553 in 2000; and 503 in 2001. Taiwan has successfully prosecuted several money laundering cases based on SARs. Currently, there are over 280 cases under investigation stemming from those suspicious transaction reports filed.

All financial institutions have an electronic system in place to identify transactions that exceed the reporting threshold. The present threshold amount for significant transaction amounts is NT\$ 1.5 million (U.S. \$ 43,600). There are 3000 transactions per day of NT\$1.5 million or more and 5000 per day of NT\$1 million or more.

Customer identification, including safe deposits, is verified through an ID card or a passport. Due to the use of false identity cards, the GOP set up a central database of lost and stolen ID cards, which financial institutions can access and use to verify the identification of potential customers.

Although Taiwan cannot be a party to the 1988 UN Drug Convention because it is not a UN member, the authorities on Taiwan have passed and implemented laws in compliance with the goals and objectives of the Convention. 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. The

successful prosecutions of money launderers based on SAR reporting attest to the effectiveness of Taiwan's anti-money laundering regime. Taiwan should act on the proposed amendments to the MLCA, especially in the areas of client non-disclosure of suspicious transaction reporting. These measures will enhance the progress Taiwan has made thus far in combating money laundering.

**Tajikistan.** Tajikistan is not a financial center, and its underdeveloped banking sector may keep it from being attractive for money laundering in the near future. However, with average monthly income in the country remaining at less than ten U.S. dollars, the temptation to become involved in narcotics-related transactions remains high for many segments of the society. Tajikistan has not criminalized money laundering.

Tajik authorities have been cooperative with U.S. efforts to trace and halt terrorist-related funds.

Tajikistan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Tanzania.** Tanzania is not a regional financial center. Police and government officials confirm that Tanzania is vulnerable to money laundering. However, a very weak financial sector and an under-trained, under-funded law enforcement apparatus make such crimes difficult to track and prosecute. Officials believe that real estate and used cars are areas where money laundering is present. Government officials have also cited drug trafficking and the emerging casino industry as areas of concern for money laundering. The prevalence of hawala on the unregulated island of Zanzibar is also a potential area of concern. However, to date there have been no prosecutions for money laundering.

The Proceeds of Crime Act of 1991 criminalizes drug-related money laundering. However, the Act does not adequately define money laundering. The law obliges financial institutions to maintain records of transactions exceeding 10,000 shillings (approximately U.S. \$10.50) for a period of 10 years. If the institution has reasonable grounds to believe that a transaction relates to money laundering, it may communicate this information to the police for investigation, although such reporting is not required. A "safe harbor" provision protects such disclosure. There have been no prosecutions of money laundering cases not related to other violations of the law, and authorities lack the ability to seize assets in money laundering cases. The government is in the early stages of setting up a financial intelligence unit.

Tanzania is a party to the 1988 UN Drug Convention. Tanzania hosts the Secretariat of the East and Southern Africa Anti-Money Laundering Group (ESAAMLG), which was founded in 1999. The Government of Tanzania played a leading role in the creation of this FATF-style regional body, and served as the Chairman of the Interim Ministerial Council until August 2001. In addition to hosting the Secretariat of ESAAMLG, the GOT has seconded a government official to assist in the Secretariat's development. Tanzania has signed but not yet ratified the UN Convention against Transnational Organized Crime.

The GOT should enact money laundering legislation that is prosecutable and also provides for an accompanying asset forfeiture provision allowing government authorities to seize the assets of drug traffickers and money laundering criminal organizations.

**Thailand.** Thailand's location makes it a major risk for money laundering, as it is a transit country for Southeast Asian narcotics. Northern Thailand forms part of the Golden Triangle with Burma and Laos. Although Thailand has taken significant steps towards reducing the production of illicit narcotics, it still serves as a major narcotics-trafficking route for the Golden Triangle, because of its good transportation infrastructure and international connections. Thailand's banking system is used by drug traffickers to hide and move their proceeds. The underground banking system is also widely in use as a money laundering method. Money is transported in bulk from the United States to other Asian countries, and ultimately moved to Thailand. Gambling dens and underground lotteries account for a significant portion of Thailand's underground economy and remain attractive mechanisms for money laundering.

Thailand's anti-money laundering legislation, the Money Laundering Control Act B.E. 2542 (1999), came into effect in August 1999 and was implemented in October 2000. The Act criminalized money laundering

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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. Provisions of the Money Laundering Control Act require customer identification, record keeping, and the reporting of large and suspicious transactions. Reporting requirements for most financial transactions (including purchases of securities and insurance) exceeding 2 million baht (roughly \$50, 000) and property transactions exceeding 5 million baht (roughly \$125,000) have been in place since October 2000. The Act also created three agencies to enforce the different requirements within: the Money Laundering Control Board, the Business Transactions Committee, and the Anti-Money Laundering Office (AMLO).

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 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 Anti-Money Laundering Office (AMLO) is Thailand's financial intelligence unit (FIU). Financial institutions (such as banks, finance companies, insurance companies, savings cooperatives, etc.) and registration offices and persons who act as solicitors for investors are required to report significant cash, property, and suspicious transactions. It receives, analyzes, and processes suspicious and large transaction reports as required by the Act. The Business Transactions Committee tasks the AMLO 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. AMLO works with the Business Transactions Committee, which has the authority to seize suspicious money and property and pursue the forfeiture of assets through civil proceedings. AMLO has the responsibility for the custody, management, and disposal of seized property. It was during 2001 that AMLO began to function in money laundering investigations and enforcement actions.

Licenses were first granted to Thai and foreign financial institutions to establish offshore units, known as Bangkok International Banking Facilities (BIBFs) in March 1993. BIBFs may perform a number of financial and investment banking services but can only raise funds offshore (through deposits and borrowing) for onward lending into Thailand or offshore. 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. Thailand's 44 BIBFs are now subject to the recently enacted Money Laundering Control Act. Implementation of the Act may discourage the use of BIBFs as money laundering mechanisms.

The U.S.-Thai Mutual Legal Assistance Treaty entered into force in 1993. Thailand is a member of the Asia/Pacific Group on Money Laundering (APG) and co-chairs the APG's Working Group on Alternative Remittance Systems. In December 2000, the Thailand signed the UN Convention against Transnational Organized Crime. In June 2001, Thailand became a member of the Egmont Group of Financial Intelligence Units. Thailand is not a party to the 1988 UN Vienna Convention.

The Government of Thailand should continue to implement its strong anti-money laundering program and participate in international efforts. It should also consider additional measures to address underground financial systems to further strengthen its anti-money laundering regime against crime.

**Togo.** Togo's poor infrastructure makes it an unlikely venue for money laundering. Its porous borders, however, make it a transshipment point in the regional and sub-regional trade in narcotics. The Government of Togo believes increased drug flows through Togo have led to an upsurge in violent crime in general. It is also aware that increased international trade may expand opportunities for narcotics-trafficking. Togo Customs is charged with combating the laundering of narcotics proceeds.

Togo is a regional banking center. The establishment of the ECOWAS bank sponsored by the Economic Community of West African States brought increased financial activity to the country. Togo is home to around 13 national and international banks. There has also been an increase in the amount of 419 ("advanced fee") scam letters intercepted that originates in Togo. In a typical scam letter a victim is solicited into a money laundering scheme for a percentage of the funds. Scam letters often claim to have access to millions of dollars of funds that need to be transferred out of their respective countries. The scam artist aims at gaining access to the target bank account information. The scam artist then uses this information to drain the account of funds. Some letters also try and lure the victim to the country of the scam artist's origin where they are threatened with physical harm.

Togo is home to ECOBANK, which has branches in 12 West African countries. One of the newest services is Western Union Money Transfers. If left unchecked, this has the potential to be used as a conduit for money laundering activities.

Togo's 1998 drug law penalizes drug money laundering with up to 20 years in prison. In January 2001, President Eyadema created the National Anti-Corruption Commission (NACC) to combat corruption and money laundering. In 2001 the NACC recovered more than \$1 million in embezzled and laundered funds.

Togo is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the United Nations Convention against Transnational Organized Crime. Togo is a member of the West African Economic and Monetary Union (WAEMU), and in November 2001, participated in a WAEMU meeting of officials from 14 West African countries in Senegal.

Togo should continue to monitor 419 fraud letters originating within the country. Togo should also work towards implementing legislation that criminalizes money laundering beyond drugs.

**Tonga.** Tonga is not a regional financial center. In 2000, Tonga reportedly enacted the Money Laundering Act of 2000, the Mutual Assistance in Criminal Matters Act of 2000, and the Foreign Evidence Act of 2000. Money laundering is a crime in Tonga.

Tonga is a party to the 1988 UN Drug Convention.

**Trinidad and Tobago.** Trinidad and Tobago has a well developed and modern banking sector, but it is not an important regional financial center. Nevertheless, the country is experiencing an increase in financial crimes, mostly in the form of counterfeiting and credit card fraud. It is likely that money laundering takes place in banks, credit unions, stock brokerages, insurance companies, casinos, and some retail businesses. Importers under-invoicing goods for money laundering purposes are common as well.

In late 2001, a senior Customs official was assassinated outside his home. The official was instrumental in investigating allegations of fraud, corruption, and under-valuation of goods by customs employees. A police investigation is ongoing.

The Proceeds of Crime Act of 2000 (POCA) expanded money laundering predicate offenses to include all serious crimes and instituted reporting requirements for suspicious transactions. Failure to comply with the POCA's record-keeping and reporting requirements can result in a fine of 250,000 TT (approximately U.S. \$40,000) and imprisonment for two years for summary conviction, and a fine of 3,000,000 TT (approximately U.S. \$500,000) and seven years of imprisonment for conviction on indictment. Upon summary conviction for money laundering an offender can be liable for a fine of \$10 million TT (approximately U.S. \$1,600,000) and imprisonment for 7 years; and upon conviction on indictment for money laundering an offender can be liable for a fine of 25,000,000 TT (approximately U.S. \$4,000,000).



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and 25 years imprisonment. Furthermore, under the POCA, any officer who aids and abets the money laundering activities of an institution can be convicted of money laundering even if the institution itself has not been prosecuted or convicted. The POCA also enables the courts to seize the proceeds of all serious crimes.

The Government of Trinidad and Tobago (GOTT) has legislation in place that allows it to trace, freeze, and seize assets, including intangible assets such as bank accounts. Authorities may seize legitimate businesses if they are used to launder drug money. GOTT customs regulations require that any sum above U.S. \$5000 (in currency or monetary instruments) entering or leaving the country be declared. Cash above U.S. \$10,000 may be seized, with judicial approval, pending determination of its legitimate source. The GOTT does not have legislation that specifically authorizes the sharing of forfeited assets with other countries, but has done so in the past on a case-by-case basis through bilateral agreements.

The Government of Trinidad and Tobago (GOTT) has approved a UNDCP plan that will draft updated guidelines for anti-money laundering legislation, exchange of information, record keeping, independent regulatory structures, suspicious transaction reporting, know your customer requirements, and international cooperation.

The central bank has set money laundering guidelines, including due diligence provisions, that apply to all financial institutions 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.

The GOTT has an inter-ministerial counternarcotics/crime task force that investigates drug trafficking and related money laundering.

The IRS is providing technical assistance to the Trinidad and Tobago Bureau of Inland Revenue to develop a comprehensive criminal investigations system to reduce corruption and enforce the criminal statutes relative to tax administration and related financial crimes. This is being done in order to achieve compliance with the GOTT Income Tax Act.

Trinidad and Tobago is a party to the 1988 UN Drug Convention. Trinidad and Tobago is also a member of the CFATF, which is headquartered in Port of Spain. It underwent a CFATF mutual evaluation in 1997 and the report was endorsed by CFATF's Council of Ministers in 1997. Trinidad and Tobago is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In 1999, an MLAT with the United States came into force. In 2000 the U.S. and GOTT signed a joint statement on law enforcement cooperation which pledges in part to expand cooperation on the detection and prosecution of money laundering and related criminal activities.

**Tunisia.** There is little information about possible money laundering in Tunisia. It is not a regional financial center, and the government keeps a close hand on the management of the economy. However, the lack of a money laundering law makes Tunisia vulnerable to money laundering. There are roughly 12 offshore banks that are closely regulated by the Tunisian Ministry of Finance and the Central Bank, which regularly conducts surprise audits of accounts and transactions. Because the Tunisian Dinar is not readily convertible, there is a very clear paper trail on such transactions. There are also 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). Offshore companies may be 100 percent foreign-owned. Anonymous directors are not permitted, and the names of all directors and companies must be listed in the official government journal when the company is organized or when there is a change in directorship. The trading companies, as a rule, operate by matching up third country supply and demand and brokering trade deals, with no goods ever entering or leaving Tunisia. The government closely monitors offshore manufacturing and tightly limits foreign ownership of Tunisian companies.

There is no limit on the amount of foreign currency that may be brought into the country, but amounts over 1,000 Tunisian dinars (TND) or its equivalent must be declared (the current rate of exchange is approximately 1.4 TND to U.S. \$1).

Tunisia has no specific anti-money laundering law. The only material legislation is contained in a 1992 counternarcotics law that makes it illegal to assist anyone involved in drug trafficking, including transferring funds for them, offering them services, or procuring facilities for them that enable them to invest or disguise drug trafficking income. The law applies even if the illegal activity takes place in another country.

Tunisia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Turkey.** Turkey is an important regional financial center for Central Asia and the Middle East and continues to be a major transit route for Southwest Asian opiates moving to Europe. Most money laundering that takes place appears to involve tax evasion rather than narcotics transactions, according to U.S. law enforcement sources, 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, although Turkey has traditionally taken a strong stance against terrorism. Money laundering takes place in both banks and non-bank financial institutions. Traditional money laundering methods in Turkey involve 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. Illicit funds are also integrated into the economy through the financing of the construction of large apartment complexes and other buildings. Turkey 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. Turkey criminalized money laundering in 1996 for a wide range of predicate offenses, including narcotics-related crimes, smuggling of arms and antiquities, terrorism, counterfeiting, and trafficking in human organs and in women. The Council of Ministers subsequently passed a set of regulations that mandate the filing of suspicious transaction reports (STRs), and require customer identification and the maintenance of records for five years. These regulations apply 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. 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 Turkish government has broadened the definition of money laundering in 2001, through adopting three conventions of the Council of Europe: the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the Criminal Law Convention on Corruption; and the civil law on corruption. By becoming a party to these conventions, the Turkish Government agreed to include proceeds of all serious crimes in the definition of money laundering, and to specify corruption as a predicate offense for money laundering.

On 19 June 2001, the Turkish Ministry of Finance issued a circular mandating that a tax identity number be used in all financial transactions as of 1 September 2001. The circular applies to all Turkish banks and to branches of foreign banks operating in Turkey, as well as other financial entities. The new requirements are intended to increase the government's ability to track suspicious financial transactions.

In July 2001, the Ministry of Finance issued a circular of banking regulations as follows:

- Banks: All banks, including the Central Bank, securities companies and post office banks, must record tax identity information for all customers opening new accounts, applying for checkbooks or cashing checks. Tax identity disclosure will also be obligatory for cash transfers exceeding U.S. \$4,000.

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- Exchange offices: are required to sign contracts with their clients and to record tax identity information for all transactions over U.S. \$3,000.
- Finance institutions: have to obtain tax identity information before cashing customers' securities.
- Non-interest bearing entities: Islamic financial institutions are required to record tax identity information for all transactions.

The 1996 anti-money laundering law established the Financial Crimes Investigation Board (MASAK), which receives and investigates suspicious transaction reports and serves as Turkey's financial intelligence unit (FIU). MASAK 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 is a party to the 1988 UN Drug Convention and is a member of the Financial Action Task Force. MASAK is an active member of the Egmont Group. Turkey has a Mutual Legal Assistance Treaty in force with the United States. In December 2000 Turkey signed, but has not yet ratified the United Nations Convention against Transnational Organized Crime. Turkey has also signed a police and security cooperation protocol with India, which among other things provides for joint efforts to combat money laundering.

Turkey has continued to demonstrate a commitment to fighting money laundering, as exemplified by its 2001 initiative on tax identity numbers. The GOT should maintain the momentum it has generated in setting up its anti-money laundering regime and continue measures designed to ensure increased reporting of STRs.

**Turkmenistan.** Turkmenistan has only a few international banks and a small, underdeveloped domestic financial sector. Due to the presence of organized criminal groups, the country's several foreign-owned hotels and casinos could be vulnerable to financial fraud and money laundering. In addition, the national currency, the manat, has an accepted black market exchange rate that is four times the official rate. These rates create conditions that are favorable to money laundering. Corruption in Turkmenistan is also a source of concern due to the low salaries and broad general powers of Turkmen law enforcement officials. The Government of Turkmenistan has not reported any suspected cases of money laundering.

Turkmenistan has no specific law addressing money laundering. Presidential Resolution 0210/02-2 of 1995 gives the central bank authority over all international financial transactions. Under this resolution, any firm making an electronic transfer of funds to an account abroad must provide documentation that establishes the source of the funds.

Turkmenistan is a party to the 1988 UN Drug Convention.

**Turks and Caicos.** The Turks and Caicos Islands (TCI) is a Caribbean Overseas Territory of the United Kingdom (UK). TCI is comprised of two island groups and forms the southeastern end of the Bahamas archipelago. The U.S. dollar is the currency in use. TCI has a significant offshore center, particularly with regard to insurance and international business companies (IBCs). Its location has made it a transshipment point for drug traffickers. The TCI is vulnerable to money laundering because of a large offshore financial services sector offering tax advantages as well as bank and corporate secrecy.

The TCI's offshore sector has eight banks (five of which also deal with onshore clientele), approximately 2,500 insurance companies, 1,000 trusts, and 13,000 "exempt companies" (IBCs), including those formed by the Enron Corporation. The Financial Services Commission (FSC) licenses and supervises banks, trusts, insurance companies, and company managers; it also licenses IBCs and acts as the Company Registry for the TCI. The Financial Services Commission employs a staff of 14 and conducts limited on-site inspections. The FSC became a statutory body under the Financial Services Commission Ordinance 2001, and now reports directly to the Governor. Previously, the FSC reported to the Minister of Finance on domestic issues and to the Governor concerning offshore financial issues.

The offshore sector offers “shelf company” IBCs and all IBCs are permitted to issue bearer shares; however, the Companies (Amendment) Ordinance 2001 requires that bearer shares be immobilized by depositing them, along with information on the share owners, with a defined custodian. This applies to all new shares issued and will be phased in for existing bearer shares within two years. Trust legislation allows establishment of asset protection trusts inoculating assets from civil adjudication by foreign governments; however, the Superintendent of Trustees has investigative powers and may assist overseas regulators.

The 1998 Proceeds of Crime Ordinance criminalized money laundering related to all crimes and established extensive asset forfeiture provisions and “safe harbor” protection for good faith compliance with reporting requirements. The Law also established a Money Laundering Reporting Authority (MLRA), chaired by the Attorney General, to receive, analyze, and disseminate financial disclosures such as suspicious activity reports. Its members also include the following individuals or their designees: Collector of Customs, the Superintendent of the FSC, the Commissioner of Police, and the Superintendent of the Criminal Investigation Department. The MLRA is authorized to disclose information it receives to domestic law enforcement and foreign governments.

The Proceeds of Crime (Money Laundering) Regulations came into force January 14, 2000. The Money Laundering Regulations place additional requirements on the financial sector such as identification of customers, retention of records for a minimum of five years, training staff on money laundering prevention and detection, and development of internal procedures in order to ensure proper reporting of suspicious transactions. The Money Laundering Regulations apply to banking, insurance, trustees, and mutual funds. Although the customer identification requirements only apply to accounts opened after the Regulations came into force, TCI officials indicated banks would be required to conduct due diligence on previously existing accounts by December 2005.

In 1999 the Financial Services Commission, acting as the secretary for the MLRA, issued non-statutory Guidance Notes to the financial sector, in order to help educate the industry regarding money laundering and the TCI’s anti-money laundering requirements. Additionally, it provided practical guidance on recognizing suspicious transactions. The Guidance Notes instruct institutions to send SARs to either the Royal Turks & Caicos Police Force or the FSC. Officials forward all SARs to the Financial Crimes Unit (FCU) of the Royal Turks and Caicos Islands Police Force, which analyze and investigate financial disclosures. The FCU also acts as TCI’s financial intelligence unit. As of mid-2001, the FCU had received and begun investigating nine SARs.

The TCI cooperates with foreign governments—in particular, the United States and Canada—on law enforcement issues including narcotics-trafficking and money laundering. The FCU also shares information with other law enforcement and regulatory authorities inside and outside of the TCI. The new Overseas Regulatory Authority (Assistance) Ordinance 2001, allows the TCI to further assist foreign regulatory agencies. This assistance includes search and seizure powers and the power to compel the production of documents.

The TCI is a member of the Caribbean Financial Action Task Force, and a party to the 1988 UN Drug Convention. The Mutual Legal Assistance Treaty between the United States and the UK was extended to the TCI in November 1990.

The Turks and Caicos have put in place a comprehensive system to combat money laundering with the relevant legislative framework and an established financial intelligence unit. The TCI should move forward with conducting proper due diligence on all customer accounts. TCI should expand recent efforts to cooperate with foreign law enforcement and administrative authorities, and join the Egmont Group in order to further ensure criminals do not abuse the TCI’s financial sector.

**Uganda.** Uganda is not a regional money laundering center. Ugandan law enforcement agencies suspect that Uganda’s banks are used to launder money, but thus far have been unable to prove their suspicions because of the country’s inadequate legal framework. In 2001, Uganda criminalized narcotics-related money laundering.

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Uganda has signed the Eastern and Southern Africa Anti-Money Laundering Group MOU and participated in the August 2001 Plenary of ESAAMLG in Namibia. Uganda is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Ukraine.** The lack of a comprehensive anti-money laundering system severely limits Ukraine's ability to combat money laundering and other financial crime.

High level and widespread corruption, organized crime, smuggling and tax evasion continue to plague Ukraine's economy. Ukraine's former Prime Minister, Pavlo Lazarenko is in a United States prison awaiting trial on a variety of charges, including that he laundered over \$100 million dollars, which he allegedly obtained illegally while serving as Prime Minister. Ukraine has provided assistance to the United States in connection with this prosecution. In 1999, the International Monetary Fund suspended lending to Ukraine because of the corruption and lack of economic reform. In October 2000, President Kuchma publicly acknowledged that Ukraine's industrial and commercial sectors were "criminalized."

As a member of the Council of Europe, Ukraine underwent a mutual evaluation by that group's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) in May 2000. Although Ukraine criminalized drug money laundering in 1995, the mutual evaluation report was highly critical of Ukraine, noting significant deficiencies throughout the law enforcement, legal, and financial sectors. Paramount among the noted deficiencies was the "absence of a comprehensive anti-money laundering preventive law."

The Government of Ukraine (GOU) criminalized money laundering in the newly adopted Criminal Code of Ukraine, which became effective September 1, 2001. Provisions in the criminal code also address drug related money laundering offenses and provide for the confiscation of proceeds generated by criminal activities. The Rada draft of a comprehensive anti-money laundering law in its first reading on November 15, 2001. The President of Ukraine has determined that the enactment of such legislation is a priority initiative and has requested that such legislation be adopted this year.

The GOU enacted the "Act on Banks and Banking Activities" (Act) of January 2001, which imposes counter-money laundering measures upon banking institutions. The Act prohibits banks from opening accounts for anonymous persons, requires the reporting of large-scale transactions and suspicious transactions to state authorities and provides for the lifting of bank secrecy pursuant to an order of a court, prosecutor or specific state body. However, the lack of an operational financial intelligence unit and the maintenance of bank secrecy limit the effectiveness of the reporting system to combat financial crime.

Since July 2001, "The Law on Financial Services and State Regulation of the Market of Financial Services," has been awaiting the president's signature. If signed, the law would establish some regulatory control over non-bank financial institutions that manage insurance, pension accounts, financial loans, or "any other financial services involving savings and money from individuals." Specifically, the draft law would define financial "institutions" and "services," impose record-keeping requirements on covered entities, and identify the responsibilities of regulatory agencies. The proposed law would create a Committee on Supervising Financial Operations and Markets, which, with the National Bank of Ukraine and the State Commission on Securities and Stock Market, would have the primary responsibility for regulating financial services markets.

In an effort to overcome parliamentary delays in passing a comprehensive anti-money laundering law, President Kuchma signed several Presidential decrees in 2001. The first, signed on July 19, 2001 and entitled "On Additional Steps to Combat the Laundering of Criminal Proceeds," authorized the establishment of an inter-agency anti-money laundering task force and the creation of a special unit within the State Tax Administration (STA) to focus on money laundering rather than on monitoring untaxed income and capital flight. Reportedly, a decree issued on July 25, 2001 established this special unit within the STA.

On September 7, 2001, the Financial Action Task Force (FATF) identified Ukraine as non-cooperative in international efforts to fight money laundering. The FATF in its report noted that Ukraine lacks (1) a complete set of anti-money laundering laws; (2) an efficient mandatory system for reporting suspicious transactions to an FIU; (3) adequate customer identification requirements; and (4) adequate resources at present to combat money laundering.

On December 10, 2001 the Presidential Decree “Concerning the Establishment of a Financial Monitoring Department.” The Decree mandates the creation of the Financial Monitoring Department (FMD) by January 1, 2002 to function as an FIU. Under the terms of this decree, the FMD will be an independent authority that operates under the Cabinet of Ministers instead of the STA where the president had placed the special anti-money laundering unit. The Cabinet of Ministers will be required to report quarterly to the President on the progress of Ukraine’s anti-money laundering program.

Ukraine is a party to the 1988 UN Drug Convention as well as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, which came into force with respect to Ukraine in January 1998. The U.S.-Ukraine Treaty on Mutual Legal Assistance in Criminal Matters was signed in 1998 and entered into force in February 2001. Ukraine has signed the United Nations Convention against Transnational Organized Crime but not yet deposited its instrument of ratification.

Ukraine should enact comprehensive anti-money laundering legislation prior to the June plenary of the FATF or risk having countermeasures levied against it by the 29-member state organization.

**United Arab Emirates.** The United Arab Emirates’ (UAE) is a major financial and trading center in the Gulf region of the Middle East and located at the crossroads of major narcotics smuggling routes. It has growing ties with financial centers in Europe, Asia, southern Africa, and North America. The financial sector is modern and outward looking. Its robust economic development and liberal business environment have attracted a massive influx of people and capital. Approximately 70 percent of the UAE population is comprised of non-nationals. Over 14 million people passed through Dubai’s airport in 2000 and 50 million are projected by the year 2010. There are no foreign exchange controls; no corporate or income taxes; and the UAE has free trade zones. The UAE, like all countries in the region, is a cash-intensive society. In addition, Dubai is the regional gold center with integrated gold trading ties between Europe and South Asia. Gold is often manipulated by money launderers round the world via trade or as part of alternative remittance systems such as the South Asia based hawala system of transferring funds. All of these factors suggest that the UAE is at high risk for money laundering. Due to the volume of goods passing through the UAE and Gulf Arabs’ traditional role as business brokers, the UAE is particularly vulnerable to trade related money laundering.

As of December 2001, the UAE had not enacted a comprehensive anti-money laundering law. However, the GO UAE expected that the final draft of a comprehensive bill to be enacted and in force by January 2002. Article 407 of the Penal Code can be used to prosecute some aspects of money laundering crimes. However, there have been no prosecutions to date. UAE anti-money laundering measures can be found in a series of rules and regulations issued by the Central Bank and thus are generally applicable to those financial entities that fall under its supervision. There are a number of circulars issued by the Central Bank requiring customer identification and providing a basic suspicious transaction-reporting obligation. Current regulations require that all cash transactions exceeding 200,000 dirhams (U.S. \$54,500) be reported. When suspicious activity is reported from a financial institution, the Central Bank is able to freeze suspect funds, make appropriate inquiries, and coordinate with law enforcement officials.

In July 2000, the UAE established the National Anti-Money Laundering Council, under the Chairmanship of the Central Bank’s Governor, with representatives from most of the key law enforcement authorities and regulatory bodies. It has overall responsibility for coordinating anti-money laundering policy. Following a review of current practices by the Council, the Central Bank issued Circular 24/2000, which consolidates and expands anti-money laundering requirements for the financial sector in November 2000. It is applicable to all banks, money exchanges, finance companies and other financial institutions operating

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in the UAE. The Circular provides the procedures to be followed for the identification of natural and juridical persons, the types of documents to be presented, and rules on what customer records must be maintained on file at the institution. Other provisions of Circular No24/2000 call for customer records to be maintained for a minimum of five years and further require that they be periodically updated as long as the account is open.

With implementation of the new circular came the establishment of the Anti-Money Laundering and Suspicious Case Unit (AMLSCU), which is located within the Central Bank. Financial institutions under the supervision of the Central Bank are required to report suspicious transactions to the AMLSCU, which is charged with examining suspicious transactions and coordinating the release of information with law enforcement and judicial authorities. It has the authority to request information from foreign regulatory authorities in carrying out its preliminary investigation of suspicious transaction reports, however, there does not appear to be authority for exchanging such reports with financial intelligence units of other countries. Officials indicate that such exchanges are possible provided the exchanges are conducted on a basis of reciprocity. The AMLSCU, which is not yet a member of the Egmont Group, is exploring areas of information sharing with other financial intelligence units.

Many local businessmen offer services equivalent to those associated with traditional offshore centers, such as nonresident incorporation. 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, a UAE citizen must own at least 51 percent of the business. Many UAE nationals earn their living by serving as the local “agent” of foreign businessmen operating in the UAE. The foreign businessman will capitalize the business and then pay an annual fee to the national to continue its operation. It is very common for the UAE national to be a totally “hands-off” owner and often there is no record of the identity of the foreign partner.

The UAE is noted for its growing free trade zones (FTZs). There are well over a hundred multinational companies located in the FTZs with thousands of individual trading companies. The FTZs offer one hundred percent foreign ownership, no import duties, full repatriation of capital and profits, no taxation, and easily obtainable licenses. Companies located in the free trade zones are treated as being offshore or outside the UAE for legal purposes.

The UAE is a party to the 1988 UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, and it has entered into a series of bilateral agreements on mutual legal assistance. The UAE is a member of the Gulf Cooperation Council, which is a member of the Financial Action Task Force (FATF). The UAE hosted a FATF mutual evaluation team in 2001. 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 government has demonstrated that it recognizes the need to implement an effective anti-money laundering system to protect its financial sector from potential money laundering, and has taken several of the necessary steps to deal with money laundering; however, there remain a few areas requiring further action. The UAE should also examine trade related and alternative remittance money laundering vulnerabilities and work closely with other jurisdictions to ensure that the UAE is not used in the future as a way station for money laundering.

**United Kingdom.** The United Kingdom (UK) plays a leading role in European and world finance and remains attractive to money launderers because of the size, sophistication, and reputation of its financial markets. Although drugs are still the major source of illegal proceeds for money laundering, the proceeds of other offenses such as financial fraud and the smuggling of goods have become increasingly important. The trend over the past few years has witnessed the movement away from High Street banks and mainstream financial institutions for the placement of cash. In laundering funds, criminals continue to use bureaux de change (small tourist-type currency exchanges); cash smuggling in and out of the UK; professional money launderers (including solicitors and accountants); and the purchase of high-value assets as disguises for illegally obtained money.

The United Kingdom has implemented the provisions of the European Union's Anti-Money Laundering Directive and the Financial Action Task Force Forty Recommendations. Drug-related money laundering has been a criminal offense in the UK since 1986. Subsequent legislation criminalized the laundering of proceeds from all other crimes. The UK has a requirement for the reporting of suspicious transactions that applies to banks and non-bank financial institutions.

The Bank of England Act 1998 transferred responsibility for UK bank supervision from the Bank of England to the newly established Financial Services Authority (FSA). The FSA's primary responsibilities are in areas relating to the safety and soundness of the institutions in its jurisdiction. The FSA plays an important part in the fight against money laundering through its continued involvement in the authorization of banks and investigations of money laundering activities in banks. Where appropriate, the FSA even assembles small teams of investigators to follow-up leads in newspapers and other public sources. The Financial Services and Markets Act was implemented in December 2001. The FSA administers a new civil-fines regime and prosecution powers. The FSA has the power to make regulatory rules in relation to money laundering, and enforce those rules with a range of disciplinary measures (including fines) if the institutions fail to comply.

In October 2001, the Proceeds of Crime Bill was introduced to improve the efficiency of the forfeiture process and increase the amount of illegally obtained assets recovered. The bill proposes to consolidate the existing laws on forfeiture and money laundering into a single piece of legislation. Additionally, it would create the Assets Recovery Agency (ARA) with lead responsibility for asset recovery and containing a "center of excellence" for financial investigation training. This would bring forward the time at which a freeze order may be issued by a court to any time after an investigation has commenced, and provide for new powers to recover criminal assets through civil proceedings without need for a criminal conviction. The Bill is currently in the committee stage, and should be submitted to Parliament in 2002.

Secondary regulations, affecting the financial sector only, require that systems be in place to prevent and detect money laundering.

In 1997, Guidance Notes on best practices were issued by the Money Laundering Steering Group of professional and trade bodies. The government also has specific provisions in secondary legislation to extend thorough money laundering controls to other sectors, including to lawyers, accountants and other professionals. In December 2000 the government also proposed legislative changes to allow tax authorities to share information with police in serious criminal cases. The proposed changes have been shelved temporarily, and will be re-introduced at a later date.

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). The NCIS analyzes reports, develops intelligence, and passes information to police forces and Her Majesty's Customs for investigation. The NCIS is an active member of the Egmont Group and has Memoranda of Understanding (MOU) for sharing intelligence with foreign counterparts. An arrangement is in place with the U.S. Financial Crimes Enforcement Network (FinCEN), and also the FIUs of Belgium, France, and Australia.

The UK's banking sector provides accounts to residents and nonresidents, who can open accounts through various intermediaries that often advertise on the Internet and also offer various offshore services, or as a 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 record-keeping requirements. Individuals typically open non-resident accounts for taxation or investment purposes.

The UK cooperates with foreign law enforcement agencies of other countries investigating narcotics-related financial crimes. The UK is a party to the 1988 UN Drug Convention and a member of the Financial Action Task Force and the European Union. The UK signed the United Nations Convention against Transnational Organized Crime in December 2000. The Mutual Legal Assistance Treaty (MLAT)



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between the UK and the U.S. has been in force since 1996. The UK also has an MLAT with the Bahamas. Additionally, there is an MOU between the U.S. Customs Service and Her Majesty's Customs and Excise.

The UK should continue the strong enforcement of its comprehensive anti-money laundering program and its active participation in international organizations to combat the domestic and global threat of money laundering.

**Uruguay.** Traditionally, Uruguay's strict bank secrecy laws, currency exchange regulations, and overall economic stability have made it vulnerable to money laundering. Although the extent and exact nature of money laundering in Uruguay is unknown, law enforcement entities believe the profits of drug trafficking, contraband smuggling, and other illicit activities are laundered through Uruguayan financial institutions.

During the past two years, the Government of Uruguay (GOU) has instituted several legislative and regulatory reforms to its anti-money laundering program. In May 2001, it enacted Law 17,343 which extended the predicate offenses for money laundering beyond drug trafficking and corruption to include terrorism, smuggling (above the threshold of U.S. \$20,000); illegal trafficking in weapons, explosives and ammunition; trafficking in human organs, tissues or medications; trafficking in human beings; extortion; kidnapping; bribery; trafficking in nuclear and toxic substances; and illegal trafficking in animals or antiques. The courts have the power to seize and later confiscate property, products or financial instruments linked to money laundering activities.

Safeguarding the financial sector from money laundering activities remains a priority for the GOU. A series of regulations issued by the Central Bank of Uruguay had already required banks (including offshore), currency exchange houses, and stockbrokers to implement anti-money laundering policies including the recording of transactions over U.S. \$10,000, and the reporting of suspicious transactions. During 2000 and 2001, the Central Bank issued additional rules toughening those requirements. Under these new rules, the insurance and re-insurance sector (Circular 55), stock market (Circular 1.737), and currency exchange houses (Circular 1.713) must know and thoroughly identify their customers; and report suspicious financial transactions to a Financial Information and Analysis Unit (UIAF). Under Circular 55, the insurance and re-insurance sectors are required to maintain a registry of "relevant" transactions, i.e. payments of insurance premiums of \$10,000 or more. Under Circular 1.737 the stock market and investment funds administrators are required to identify and maintain a registry of those individuals and/or entities exchanging currency, precious metals, or other valuables in amount greater than \$10,000. Further, Central Bank Circular 1.712 of October 2000 requires all financial institutions under its control to set up internal databases to register all transactions in cash over U.S. \$10,000 involving deposits, or the conversion of paper currency for checks, stocks, precious metals or other easily negotiable valuables. It instructs financial institutions not to proceed with transactions when there is reason to believe they may be connected with the laundering of assets derived from criminal activities such as drug trafficking, terrorism, or trafficking in weapons.

In December 2000 the Central Bank issued Circular 1722 creating the UIAF within the Superintendency of Financial Intermediation Institutions, to coordinate all anti-money laundering efforts. The UIAF, which serves as Uruguay's financial intelligence unit receives, analyzes, and remits to the judicial authorities, when appropriate, suspicious transaction reports. The Circular generally provides for the ability of the UIAF to respond to requests for international cooperation.

There are twelve offshore banks and six offshore mutual fund companies. The offshore banks are subject to the same laws and regulations as local banks, and are required to be licensed by the GOU, a process involving background checks on license applicants. There are no records of the number of Uruguayan offshore firms or shell companies, although, a large number are believed to exist. Offshore trusts are not allowed. Bearer shares may not be used in banks and institutions under the authority of the Central Bank, and any share transactions must be authorized by the Central Bank.

Uruguay remains active in international anti-money laundering efforts. It is a party to the 1988 UN Drug Convention, and a member of the South American Financial Action Task Force (GAFISUD) as well as

the OAS Inter-American Commission on Drug Abuse Control Experts Group to Control Money Laundering. The USG and the GOU are parties to an extradition treaty and a mutual legal assistance treaty, which entered into force in 1984 and 1994 respectively. Uruguay has signed but not yet ratified the UN Convention against Transnational Organized Crime.

Effective implementation and enforcement of these anti-money laundering measures must remain a priority for the GOU in order to eliminate the potential for money laundering activities throughout its financial sector.

**Uzbekistan.** Uzbekistan is not a regional financial center or a significant country for money laundering. Uzbekistan has no specific laws against money laundering, but its currency is not freely convertible and banking services are unsophisticated, and the country does not appear to be used by money launderers to any significant extent. There is a significant black market for smuggled consumer goods in the country. However, there is no evidence that the market is funded by narcotics proceeds.

Article 243 of the Uzbek Criminal Code criminalizes money laundering related to any criminal activity. A decree issued in October 1998 allowed banks to offer anonymous hard currency accounts, but the measure failed to attract significant deposits.

There are strict controls on the amount of currency that can be carried across Uzbekistan's borders. Residents and non-residents may bring the equivalent of U.S. \$10,000 into the country tax-free. Amounts in excess of this limit are assessed a one-percent duty. Non-residents may take out as much currency as they brought in; however, residents are limited to the equivalent of U.S. \$1,500.

Uzbekistan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Vanuatu.** Vanuatu's offshore sector is vulnerable to money laundering as it historically has maintained strict secrecy provisions that have the effect of preventing law enforcement agencies from identifying the beneficial owners of offshore entities registered in the sector. Due to allegations of money laundering, a few United States-based banks announced that they would no longer process U.S. dollar transactions to or from Vanuatu in late December 1999. The Government of Vanuatu (GOV) responded to these concerns by introducing reforms designed to strengthen financial regulation both domestically and offshore.

Vanuatu's financial sector includes five licensed banks (that carry on domestic and offshore business) and 60 credit unions, regulated by the Reserve bank of Vanuatu. The Financial Services Commission (FSC) regulates the offshore sector that includes 55 offshore banks and approximately 2500 "international companies" (i.e., international business companies or IBCs), as well as offshore trusts and captive insurance companies. IBCs may be registered using bearer shares, shielding the identity and assets of beneficial owners of these entities. Secrecy provisions protect all information regarding IBCs and provide penal sanctions for unauthorized disclosure of information. These secrecy provisions, along with the ease and low cost of incorporation, make IBCs ideal mechanisms for money laundering and other financial crimes.

The Serious Offences (Confiscation of Proceeds) Act 1989 criminalized the laundering of proceeds from all serious crimes and provided for seizure of criminal assets and confiscation after a conviction. The Financial Transaction Recording Act of 2000 requires financial institutions to identify customers and beneficial owners when establishing business relations or account accommodations. Regulatory agencies in Vanuatu have instituted stricter procedures for issuance of offshore banking licenses and continue to review the status of previously issued licenses. This legislation requires all financial institutions, both domestic and offshore, to report suspicious transactions and to maintain records of all transactions for six years, including the identities of the parties involved. Safe harbor provisions are provided under this legislation to all suspicious transactions reported in good faith.

The Financial Transaction Reporting Act 2000 provides for the establishment of a financial intelligence unit (FIU) within the State Law Office. The FIU will receive suspicious transaction reports filed by financial institutions and may distribute them to the Public Prosecutors Office, the Reserve Bank of

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Vanuatu, the Vanuatu Police Force, the Vanuatu Financial Services Commission and law enforcement agencies or supervisory bodies outside Vanuatu. The FIU will also issue guidelines to, and provide training programs for financial institutions regarding record keeping for transactions and reporting obligations. The Act also regulates how such information can be shared with law enforcement agencies investigating financial crime. The law further states that preventative measures are to be imposed by financial institutions. Financial institutions within Vanuatu must establish and maintain internal procedures and provide a written statement to the FIU.

Every financial institution is required to keep records of all transactions. Four key pieces of information are required to be kept for every financial transaction: the nature of the transaction, the amount of the transaction and the currency in which it was denominated, the date the transaction was conducted, and the parties to the transaction. These records must be kept for a period of six years after the completion of the transaction.

There are three bases for cooperation in international matters: the Mutual Assistance in Criminal Matters Act 1989, the Serious Offences (Confiscation of Proceeds) Act 1989, and the Extradition Act 1988. The Attorney General, designated as the central authority for requests of mutual assistance, possesses the authority to grant requests for assistance and may require government agencies to assist in the collection of information pursuant to the request. In an effort to strengthen mutual legal assistance, Vanuatu has drafted a Bill to amend the Mutual Assistance in Criminal Matters Act and a Bill for the Proceeds of Crime Act.

The E-Business Act No. 25 of 2000 and the Interactive Gaming Act No. 16 of 2000 are two pieces of legislation that regulate e-commerce. Section 5 of the E-Business legislation permits the establishment of a Vanuatu-based website where business can be conducted without residency, directors, shareholders, or a registered office. Reportedly, the E-Business Act requires online operations to maintain stringent customer identification and record keeping requirements, as well as reporting suspicious transactions. The Financial Transaction Reporting Act of 2000 applies to e-commerce or businesses by defining any company listed under the Vanuatu Interactive Gaming Act 2000 as a financial institution.

Vanuatu is a member of the Asia/Pacific Group on Money Laundering (APG), the Offshore Group of Banking Supervisors (OGBS), the Commonwealth Secretariat, and the Pacific Island Forum.

The GOV has taken steps to strengthen their counter money laundering program, especially within the banking sector. The GOV should continue to strictly implement its anti-money laundering legislation-with a focus on enforcing new reporting requirements on offshore banks, as well as enacting measures to require complete identification of the beneficial ownership of IBCs to ensure that Vanuatu's offshore sector is not used for money laundering or other financial crimes. It should also move expeditiously to establish and staff its FIU.

**Venezuela.** Venezuela is not considered a regional financial center nor does it have an offshore financial sector. The relatively small but modern banking system (77 financial institutions classified as banks) primarily serves the domestic market. Venezuela's proximity to drug-source countries, corruption, and weaknesses in the anti-money laundering system continue to make it a prime target for money laundering. The main source of money laundering in Venezuela stems from proceeds generated by Colombia's cocaine and heroin trafficking organizations.

The September 1993 Organic Drug Law provides the only legal mechanism for the investigation and prosecution of money laundering crimes. Under this law, a direct connection between the illegal drugs and the proceeds must be proven to establish a money laundering offense. The Government of Venezuela (GOV) freezes assets of individuals charged in international drug trade or money laundering cases directly related to drug trafficking. If a conviction is obtained, the frozen assets are turned over to the Ministry of Finance for use in drug demand reduction programs. After the introduction of a new Code of Criminal Procedure in 1999, responsibility for initiating these actions shifted from judges to prosecutors, consequently there was a reduction in the number of cases where trafficker assets were seized. The

organized crime bill currently pending in the National Assembly would increase the scope of money laundering. Under this bill those who cannot establish the legitimacy of possessed or transferred funds and who have awareness of the illegitimate origins of those funds would be guilty of money laundering.

Since 1997, the Superintendency of Banks and Other Financial Institutions (SBIF) has implemented controls to prevent and investigate money laundering including stricter customer identification requirements and the reporting of currency transactions and suspicious activity. These controls apply to all banks (commercial, investment, mortgage, private), savings and loan institutions, financial rental agencies, currency exchange houses, money remitters, money market funds, capitalization companies, and frontier foreign currency dealers. The institutions are also required to report currency transactions of more than U.S. \$10,000 (or local currency equivalent), and suspicious transactions to a National Financial Intelligence Unit (UNIF) created in 1998 under the SBIF. The UNIF analyzes the suspicious activity reports and refers those deemed proper for further investigation to the appropriate enforcement authority, which could be the National Guard, Technical Judicial Police, or the Office of the Public Prosecutor. The UNIF is a member of the Egmont Group (since 1999) and has signed bilateral information exchange agreements with counterparts worldwide. Venezuela does not have banking secrecy laws. Comprehensive financial and law enforcement information is available to the UNIF.

Venezuela actively participates in the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Experts Group to Control Money Laundering, and Caribbean Financial Action Task Force (CFATF). Venezuela is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

The GOV continues to share money laundering information with U.S. law enforcement authorities under the 1990 Agreement Regarding Cooperation in the Prevention and Control of Money Laundering Arising from Illicit Trafficking in Narcotics Drugs and Psychotropic Substances, which entered into force on January 1, 1991. The information shared has supported domestic operations resulting in the seizure of significant amounts of money and several arrests in the United States.

The GOV should adopt legislation that would criminalize the laundering of proceeds from all serious crimes, thereby providing the Government with more effective tools for the investigation and prosecution of money laundering and other financial crimes.

**Vietnam.** Vietnam is not considered an important regional financial center. Vietnam does not yet have a separate law on money laundering. However, Article 251 of the Amended Penal Code, which took effect July 1, 2000, criminalizes money laundering for the first time. The new counter narcotics Law, which took effect June 1, 2001, makes two narrow references to money laundering in relation to drug offenses; it prohibits the “legalizing” (i.e. laundering) of monies and/or property acquired by committing drug offenses (article 3.5) and it gives the Public Security force’s specialized counternarcotics agency the authority to require disclosure of financial and banking records when they believe there is a violation of the CN law (Article 13). However, the implementing regulations for the CN law have not yet been promulgated. Additionally, the World Bank continues to make progress with the GVN on draft Banking legislation that will also include a section money laundering. There is also increased interest by the GVN in general regarding supervision of international transactions stemming from their efforts to cooperate on combating terrorist financing.

However, the Vietnamese Banking sector is underdeveloped making it unlikely that major money laundering is carried on in Vietnam at this time. What “drug economy” exists in Vietnam is likely outside Vietnam’s formal financial system. Vietnam has a large “shadow economy”, where U.S. dollars are the preferred currency. Vietnamese regularly transfer money through gold shops and other informal mechanisms to remit or receive funds from overseas. Vietnam is not considered an important regional financial center.

Due to the limited size of Vietnam’s banking system, even legitimate businesses carry on few transactions there through financial institutions preferring to use the large “shadow economy” of gold and

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international transfers instead. Vietnam should pass anti-money laundering legislation covering all serious crimes and create a viable anti-money laundering regime.

**Yemen.** Yemen has no anti-money laundering legislation. Though the extent of money laundering is not known, the lack of legislation, the existence of Islamic banks and the prevalence of hawala make Yemen vulnerable to money laundering. Yemen's banking sector is small and rudimentary. It is composed of 11 commercial banks and two public sector specialized banks. The Central Bank of Yemen supervises the country's banks.

The government is in the process of preparing a new money laundering law. The governor of the Central Bank has prepared a primary draft that has been presented to the bankers' association and other financial bodies for further recommendations. The draft of the law places money laundering activities on the list of illegal actions, along with embezzlement, theft, and kidnapping. The proposed law would forbid opening bank accounts under fictitious names.

Yemen is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Federal Republic of Yugoslavia.** Narcotics-trafficking, smuggling, money laundering, and other criminal activities are continuing at a noticeable level in the Federal Republic of Yugoslavia (FRY). Estimates of money laundered by Yugoslavia's former president Slobodan Milosevic and his associates go as high as one billion U.S. dollars.

The Federal Assembly adopted an anti-Money Laundering Law in September 2001. The Law will come into effect in July 2002. The law defines money laundering to mean depositing or introducing money into the financial system in any other manner, which has been acquired through illegal activity. This includes, money derived from the gray market economy and arms and narcotics-trafficking. Among the entities required to take actions and measures aimed at uncovering and preventing money laundering under the law are: commercial and savings banks and other financial credit institutions; the postal savings bank, the post office and other commercial enterprises; all government entities, the National Bank of Yugoslavia and its clearing and payments department, foreign exchange bureaus, casinos, pawnshops, stock exchanges, and national lottery organizers. The obliged entities are required to identify persons opening an account "or establishing any other kind of lasting business cooperation with the client" and report on every transaction exceeding 600,000 dinars (about \$9,000)." Criminal penalties for money laundering violations range from six months to five years imprisonment, while civil penalties range from 45,000 to 450,000 (\$650 to 6,500) dinars per offense.

The FRY is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime.

Enactment of the Money Laundering Prevention Law was a significant act on the part of the FRY. The FRY should expand its anti-money laundering legislation to include all serious crimes and participate in international fora that offer training and technical assistance for police, customs, and judiciary officials involved with combating transnational organized crime.

**Zambia.** Zambia is not a major financial or money laundering center. It does not yet have in place comprehensive anti-money laundering legislation. Article 22 of Zambia's Narcotics Drugs and Psychotropic Substances Act, 1993, criminalizes money laundering related to narcotics-trafficking. In 2001, the National Assembly passed an anti-money laundering bill that, among other things, increased the investigative and prosecutorial powers of the Drug Enforcement Commission and stiffened penalties for financial crimes. However, as of the end of 2001 the Minister of Legal Affairs had not begun implementing the new law.

A team of officers known as the Anti-Money Laundering Unit was already in place before passage of the new law. Reports indicate that the team has seized approximately U.S. \$60,750, arrested seventeen individuals (four of whom were convicted), and confiscated U.S. \$198,900 from foreign nationals who

have failed to declare their monies upon entry into Zambia. By the end of October 2001, law enforcement authorities had impounded over U.S. \$250,000.

Zambia is a party to the 1988 UN Drug Convention. Although Zambia participated in the August 2001 Plenary of the East and Southern Africa Anti-Money Laundering Group, it had not signed the Memorandum of Understanding by year end. It should do so and it should implement its current anti-money laundering legislation and expand it to include all serious crime.

**Zimbabwe.** Zimbabwe is not a regional financial center and is not considered to be at significant risk for money laundering.

Zimbabwe's Anti-Money Laundering Act (AMLA) criminalizes narcotics-related money laundering. The Government of Zimbabwe (GOZ) reportedly drafted legislation prior to 2000 that would have required financial institutions to establish customer identification procedures and to report certain threshold transactions to a financial intelligence unit. However, the GOZ to date has not taken further action on these proposals.

Zimbabwe is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. Zimbabwe should sign the Memorandum of Understanding of the East and Southern Africa Anti-Money Laundering Group and construct a viable anti-money laundering regime.